

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**EVALUATION OF THE
DISTRICT'S MANAGEMENT AND
VALUATION OF COMMERCIAL
REAL PROPERTY ASSESSMENTS**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



November 16, 2012

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Dear Dr. Gandhi, Ms. Fuller Jenkins, Mr. Nathan, and Chairman Mendelson:

Enclosed is our final report entitled, "Evaluation of the District's Management and Valuation of Commercial Real Property Assessments" (OIG No. 13-2-01AT). This audit was conducted pursuant to D.C. Code § 47-821(e) in accordance with our contract with Almy, Gloudemans, Jacobs & Denne (AGJD).

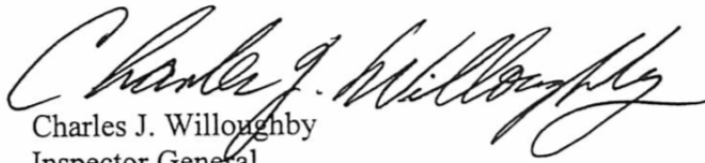
AGJD directed 28 recommendations to the District of Columbia believed necessary to correct the deficiencies noted in this report pertaining to improvements in appraisal practices and organization. Specifically, Recommendation 16 is directed to the Real Property Tax Appeals Commission; Recommendation 17 is directed to the Council of the District of Columbia; and Recommendation 21 is directed to the Office of the Attorney General for the District of Columbia; all others are directed to the Office of the Chief Financial Officer.

We request that each of you provide a written response within 60 days of the date of this final report. Your responses should include actions taken or planned, target dates for completion of planned actions, and reasons for any disagreements with the findings or recommendations. Your responses may propose alternative solutions to the recommendations that will effectively or efficiently correct noted deficiencies. Please ensure that your responses are received in this Office no later than February 7, 2013.

Dr. Gandhi, Ms. Fuller Jenkins, Mr. Nathan, and
Chairman Mendelson
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If you have questions or desire an exit conference prior to preparing your responses, please contact me or Ronald King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

Enclosure

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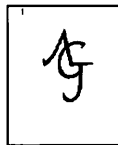
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EVALUATION OF THE DISTRICT'S MANAGEMENT AND VALUATION OF COMMERCIAL REAL PROPERTY ASSESSMENTS

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30 September 2012

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LIST OF ACRONYMS AND ABBREVIATIONS

AGJD	Almy, Gloudemans, Jacobs & Denne [the contractor]
ARN	Assessor of record number
BOMA	Building Owners and Managers Association
BRPAA	Board of Real Property Tax Assessments and Appeals [replaced in 2012 by RPTAC]
CAE	Certified Assessment Evaluator
CAMA	Computer-assisted mass appraisal
Cap	Capitalization [rate]
CLIN	Contract line item (the tasks the contractor was required to carry out)
DC	District of Columbia
DCF	Discounted cash flow
DCRA	Department of Consumer and Regulatory Affairs
Delta	(the company the District hires to make a capitalization rate study)
GIS	Geographic information system
HR	Human resources
IAAO	International Association of Assessing Officers
I&E	Income and expense [data]
MAI	Member, Appraisal Institute
Nbhd	Neighborhood
NOI	Net operating income
OCFO	Office of the Chief Financial Officer, District of Columbia
OIG	Office of the Inspector General, District of Columbia
OTR	Office of Tax and Revenue, OCFO
PDB	Pertinent data book [a compilation of market evidence used in appraising properties and defending assessments]
PRE CD-ROM	A data disk published by RPTA.
PWC	PriceWaterhouseCoopers (an accountancy firm that studies real estate markets)
RERC	Real Estate Research Corporation
RPAD	Real Property Assessment Division, RPTA

RPTA	Real Property Tax Administration, OTR
RPTAC	Real Property Tax Appeals Commission [successor agency to BRPAA]
SSL	Square-suffix-lot—the property identification number
TY	Tax year
USPAP	Uniform Standards of Professional Appraisal Practice

EXECUTIVE SUMMARY

Introduction

Pursuant to District of Columbia Official Code Section 47-821(e), the DC Office of the Inspector General (OIG) selected Almy, Gloudemans, Jacobs & Denne (AGJD) to make this review of commercial real estate assessment processes. The review was to include an:

- Evaluation of commercial real property assessment process
- Evaluation of organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, and staff development functions
- Examination of hiring practices, including whether the Human Resources rules and regulations to which the Office of the Chief Financial Officer is subject, hinder or enhance the ability of the Office of Tax and Revenue (OTR) to attract, develop, and retain a well-qualified workforce

We also were to make recommendations for improving the commercial real property assessment functions within the OTR.

Responsibility for real property tax administration in the District of Columbia falls to the Real Property Tax Administration (RPTA), a department of the OTR, and its Real Property Assessment Division (RPAD). Provisions of the District of Columbia Official Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees (hereafter, “the Code”) govern the assessment and collection of real property taxes. Assessments are to be based on market value. Properties are revalued annually. Commercial real estate is one of four classes of property, each of which has its own tax rates. The commercial rate is a comparatively low rate of \$1.65 per hundred of assessed value for the first \$3 million of value and \$1.85 per hundred on any remainder. Assessments may be challenged first by appealing to RPTA, second to the Real Property Tax Appeals Commission (RPTAC, formerly the Board of Real Property Assessments and Appeals or BRPAA), and finally to the Superior Court of the District.

Evaluation

The District’s commercial real property assessment system has a number of strengths. The Code contains two provisions that are essential to a well-administered property tax based on market value: the mandatory disclosure of (1) sales prices and terms and (2) rental property income and expense (I&E) data, with the second disclosures being treated confidentially.

RPAD uses all three basic valuation methods (namely, the cost approach, the sales comparison approach, and the income capitalization approach). Its appraisal and assessment work is support-

ed by a powerful computer-assisted mass appraisal (CAMA) system, which is linked to the District's Integrated Tax System (ITS). The Division also has use of a geographic information system (GIS) and images of properties. RPAD has well-designed and documented procedures. RPAD uses multivariate mass appraisal models in the valuation of most apartment properties. It publicizes its appraisal methods in a document entitled *Appraiser Reference Materials*.

RPTA and RPAD managers have faced severe challenges in recent years, including the effects of the Great Recession and a recent scandal. As a result, RPAD has lost some key positions, has experienced considerable turnover, and has difficulty filling vacant positions. An ongoing challenge is the fact that the assessments of a large percentage of commercial properties are appealed each year. Appellants are seldom satisfied during the first level of appeals. This diverts resources from producing defensible assessments to defending assessments. In other words, the District has an appeals-driven commercial property assessment system.

One reason for the difficulties that RPAD is in is an unfortunate conjunction of conflicting deadlines and the Division's attempts to comply with a Superior Court decision known as "National Place." The deadline for taxpayers to submit I&E statements is after the deadline by which RPAD has to issue assessment notices for the coming tax year. In other words, the original assessments of commercial properties cannot take advantage of economic data for the most recently finished calendar year. RPAD usually does not receive these data until assessments have been appealed. Compounding this difficulty is the fact that the National Place decision requires RPAD to base assessments on actual rents and operating expense. Values based on these facts are known as "leased-fee" values. In contrast, the Code requires properties to be based on market (or "fee-simple") values that are reached by analyzed typical rents and expenses, not property-specific figures. In sum, under current circumstances, RPAD can seldom prevail on appeal.

As discussed next, OTR needs to overcome the National Place decision and get assessments "right, first time." That is, they need to be so defensible that property owners and their agents cannot profitably wage a war of attrition on such a large scale. We think there are improvements in organization and in valuation methods that can be made to achieve this aim.

Recommendations

We make a total of 28 recommendations. Most pertain to improvements in appraisal practices and organization. However, we make recommendations in all areas of our reviews. The main recommendations are:

- RPAD should place greater reliance on mass appraisal models that generate value estimates for virtually all properties of a particular kind (such as office buildings) or market area than on its current property-specific "worksheets" (Microsoft Excel spreadsheets). (See specific recommendations 1 through 7 in Section 2.2.1.3.)
- RPAD should reorganize its appraisal staff in specialist property-type teams instead of the current practice of assigning each appraiser the responsibility for valuing virtually all

the commercial properties in a set of residential neighborhoods. (See specific recommendations 24 and 25 in Section 3.)

- RPAD should stress the market-value standard in the D.C. Code in appeals and strongly counter arguments by appellants based mainly on leased-fee values. OTR should bring the consequences of an over-reliance on leased-fee values based on a selective reading of the National Place decision to the attention of the District Council and to seek clarification of the standard of assessment. (See specific recommendation 19 in Section 2.3
- RPAD should take steps to ensure that its appraisers have appropriate skills and that newly hired appraisers come with appropriate qualifications. (See specific recommendations 25-27 in Section 3.3.3.)

Given the interrelated nature of the recommendations, an OTR-endorsed strategic planning approach would be advisable so that specific work assignments, deadlines, and budgets are provided.

EVALUATION OF THE DISTRICT'S MANAGEMENT AND VALUATION OF COMMERCIAL REAL PROPERTY ASSESSMENTS

1. INTRODUCTION

1.1 Background

Pursuant to Solicitation DCOIG-FY12-S-DOC65662, the Office of the Inspector General of the District of Columbia (OIG) selected Almy, Gloudemans, Jacobs & Denne (AGJD) to make an evaluation of the commercial real property assessment processes of the Office of Tax and Revenue (OTR).

The District of Columbia assesses and collects a real property tax under the provisions of District of Columbia Official Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees (hereafter, "the Code"). Assessments are to be based on market value. Properties are revalued annually (previously, there was a triennial revaluation scheme whereby a third of properties was revalued in a given year).¹ There are four classes of property that have differential tax rates:

1. Residential (including apartments), which is taxed at a rate of \$0.85 per \$100 of assessed value.
2. Commercial, which is taxed at a rate of \$1.65 per hundred of assessed value for the first \$3 million of value and a rate of \$1.85 per hundred on any remainder.
3. Vacant, which is taxed at a rate of \$5.00 per hundred of assessed value.
4. Blighted which is taxed at a rate of \$10 per hundred of assessed value.

The District of Columbia Regulatory Agency (DCRA) is responsible for classifying properties as vacant or blighted, and its work is outside the scope of our review.

Although the Code references the Mayor, the Chief Financial Officer effectively has the powers and duties connected with real property tax administration. These powers and duties have, in turn, been delegated to the OTR, which has further delegated them to the Real Property Tax Administration (RPTA), and the actual assessment of commercial properties is carried out by sections of the Real Property Assessment Division (RPAD).

Reinforcing the market value standard are requirements in §47-821 of the Code that the parties to a transfer of real property are to disclose to OTR the price paid and other facts about the sale. Moreover, owners of rental properties are required to submit information about rents and operating expenses to OTR. This information is treated as confidential.

¹ §47-820 (b-2)

DC law provides for a three-step structure for appealing assessments. The first step is to the OTR. Taxpayers dissatisfied with the results of this appeal may appeal to the Real Property Tax Appeals Commission (RPTAC) (previous to 2012, the Board of Real Property Assessments and Appeals – BRPAA). The third level of appeal is to the Superior Court of the District of Columbia, Tax Division.

The property tax calendar and deadlines also are covered by the law. The assessment date is 1 January of the year previous to the tax year. That is, values as of 1 January 2012 become the basis for Tax Year 2013 taxes.

RPAD's appraisal and assessment work is supported by a computer-assisted mass appraisal (CAMA) system provided by Vision Government Solutions, Inc. ("Vision"), which has links to the District's Integrated Tax System (ITS). The Division also has use of a geographic information system (GIS) and images of properties, including oblique aerial photography provided by Pictometry, a company that provides such imagery.

Aspects of these features of the property tax system will be discussed in later sections.

1.2 Objectives, Scope, and Methodology

The Solicitation required AGJD to carry out five interrelated tasks (or contract line items – CLINs). The tasks were:

- CLIN 0001: Evaluation of commercial real property assessment process
- CLIN 0002: Evaluation of organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, and staff development functions
- CLIN 0003: Examination of hiring practices, including whether the Human Resources rules and regulations to which the Office of the Chief Financial Officer is subject, hinder or enhance the ability of the Office of Tax and Revenue to attract, develop, and retain a well-qualified workforce
- CLIN 0004: Recommendations for improving the commercial real property assessment functions within the Office of Tax and Revenue
- CLIN 0005: Proposed project plan for successfully accomplishing CLINS 0001 through 0004 on or before 30 September 2012

The first four tasks are the subject this report. Sections 2 through 4 address CLINs 0001 through 0003, respectively. Section 5 brings together the recommendations required by CLIN 0004. Our project plan (CLIN 0005) is a standalone document.

The Solicitation required us to consider several documents, including:

- Real Property Assessments Improvement Act of 2010 (DC Code §47-821(e) and §47-821(f))
- OTR Fiscal Year 2011, 2012, and 2013 Assessment Ratio Reports
- Uniform Standards Of Professional Appraisal Practice (USPAP) – 2010-2011 Edition

In addition to the evaluative criteria in USPAP, we considered the technical standards published by the International Association of Assessing Officers (IAAO) and generally recognized practices. With respect to USPAP, the most applicable requirements are those found in:

- The Ethics Rule
- The Competency Rule
- The Scope of Work Rule
- The Jurisdictional Exception Rule
- Standard 6: Mass Appraisal, Development and Reporting
- Advisory Opinion 32: Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments

Judgment is required in applying USPAP requirements to a particular situation. In addition, much of USPAP is written from an individual appraisal orientation rather than a mass appraisal orientation. Finally, there appears to be nothing in the District of Columbia Code or in the Municipal Regulations that require appraisers in RPAD to adhere to USPAP. Nevertheless, we will cite USPAP when we think the standards support changes in practices that we will be recommending.

Similarly, there appears to be no law or policy that requires adherence to IAAO's voluntary technical standards. Nevertheless, the IAAO technical standards that we drew upon included:

- Standard on Assessment Appeal (2001)
- Standard on Mass Appraisal of Real Property (2012)
- Standard on Professional Development (2000)
- Standard on Property Tax Policy (2010)
- Standard on Ratio Studies (2010)

The text of the report contains citations to other works that identify best practices.

2. EVALUATION OF ASSESSMENT PROCESS

Section 2 contains AGJD's evaluation of the District's commercial real property assessment process as required by CLIN 0001. Its scope includes:

- The collection and maintenance of property attribute data
- The collection of evidence of market values, including sales, rental property incomes and expenses, construction costs
- Market analysis and the development and application of mass appraisal models
- The evaluation of valuation accuracy
- Responses to appeals

As will be seen, the valuation process is colored by the organizational structure of the Real Property Assessment Division (RPAD) (discussed in Section 3) and by the operations of the appeal system.

2.1 Mass Appraisal Modeling and Valuation Approach

2.1.1 Basic Processes

2.1.1.1 Current Situation

RPAD describes the valuation of commercial properties in its Assessment Manual.² It details the valuation process for both "General Commercial" properties and "Major Commercial" properties. In the Major Commercial property section, it says *"The CAMA System may be used to produce a value estimate by the cost approach or income approach if the cost and income models have been specified and calibrated. Also, data may be downloaded from CAMA to spreadsheet software for further analysis and/or specific property income valuation"*.³

In keeping with professional standards and best practices, the commercial section generally employs the three basic approaches to value in the assessment of properties: the cost approach, the sales comparison approach and the income approach. A cost approach is applied to all properties in the District, but not all properties are assessed on that basis. The income approach is applied to many commercial properties, both within the Vision computer-assisted mass appraisal (CAMA) system and by way of external income approach Excel spreadsheets (known as "worksheets"). Although the Vision CAMA system supports an automated sales comparison approach, it is presently only used for residential properties. For commercial properties, sales are generally only used to support the cost and/or income approach.

² RPAD Real Property Assessment Manual, Volume 1 pages 172-210.

³ Ibid page 192

For the cost approach, building rates and depreciation factors are being updated each year in accordance with the Marshall Valuation Service. Individual appraisers are responsible for the land value on the properties they oversee. They typically provide updated land rates to the Major Property and General Commercial supervisors who review them and then provide them to the CAMA Manager who uploads them to the CAMA system. This process is illustrated in the Assessment Manual.⁴ Once these updates have been completed, a system recalculation updates the cost approach value for all properties.

In our review, we found that some commercial properties are being valued by the Vision CAMA system, while others are valued using Excel spreadsheets, with the resulting values being uploaded to the CAMA system after review. The CAMA system does accommodate an income approach that allows for table-driven models. The District has utilized income modeling in the CAMA system for apartments for the past five years. However, no other property types are currently being valued using an income approach within the CAMA system. This is not a system limitation. The Vision CAMA system can accommodate income models for other property types; however those models have not been created. Instead, for non-apartment commercial properties, income approach values are developed offline using Excel spreadsheets.

The apartment income models that are utilized in the Vision system are updated annually by the CAMA manager based on input from the commercial appraisers. The data for the apartment models generally comes from income and expense surveys returned by taxpayers, industry publications, and the Delta Capitalization Rate study.

For those properties valued via worksheets, each appraiser maintains separate worksheets for their assigned properties, and they update the income approach on each property, each year one at a time. The income approach utilized in the offline worksheets for non-apartment commercial properties has four major components:

1. Direct capitalization of market net operating income (NOI), as determined by applying market rent, vacancy, expenses, and a capitalization rate.
2. Discounted cash flow (DCF) that calculates the present value of the lease-up costs. If a tenant is expected to depart in the near future, the rent loss as a result of the vacant space is calculated and discounted back to the January 1st lien date. The result of this calculation is deducted from the value of the Direct Capitalization approach in #1 above.
3. Discounted cash flow that calculates the present value of the rehabilitation (“rehab”) costs and tenant improvements that are required to satisfy a new tenant occupying the vacant space in #2 above. The result of this calculation is also deducted from the value of the direct capitalization approach in #1 above.
4. A rent overage or shortfall based on the difference between actual rent and market rent. The difference is added or subtracted from the value of the direct capitalization approach in #1 above.

⁴ RPAD Real Property Assessment Manual, Volume 1 page 173.

Standalone owner-occupied properties and those managed by the General Commercial Unit are typically valued using only the simple direct capitalization procedure described in #1 above. But for larger multi-tenant, mixed-use, office and retail properties managed by the Major Property Unit, all four steps above are employed, including adjustments for lease-up, rehabilitation (rehab), and rent overage/shortfall.

To complete the worksheet, each appraiser must follow several steps. First, the appraiser enters property specific data such as net rentable area, property address, and square-suffix-lot (SSL)⁵ number into the worksheet. Then, lease information is entered for all tenants on a given property (these data are used in the calculation of rent overage/shortfall and in the determination of market rent). Estimated market rent, vacancy and expenses are then input. If the present value of the lease-up costs method is used, then assumptions are made about income and expense growth rates, the lease-up rate, new and renewal tenant improvement costs, leasing commissions, vacate probability, and discount factors. Finally, a capitalization rate is applied and the worksheet generates an estimate of market value.

For the 2012 and 2013 tax year, capitalization rates were obtained from the Delta Report. In prior years, capitalization rates were extracted from sales, in-house. Once the income approach worksheet has been completed for each property, it is reviewed by a supervisor and then the final value is provided to the CAMA manager to upload to the Vision CAMA system via a summary Excel spreadsheet.

RPAD also compiles significant valuation data in the “Pertinent Data Book” (PDB). This 90+ page report includes detailed data to support the assessed values assigned to commercial properties. The 2013 edition includes the Delta capitalization (Cap) rate study, an internally prepared index of commercial sales (including office, retail, apartments and hotels), an internally prepared office rent study, excerpts from BOMA’s Experience Exchange Report, and excerpts from Price Waterhouse Cooper’s Real Estate Investor Survey. This data book is primarily used to assist in appeals.

2.1.1.2 Conclusions

We have the following areas of concern about current commercial valuation practices:

The practices can lead to inconsistent values. The way most major commercial properties are currently valued, each property must be individually valued each year. Appraisers are required to complete individual spreadsheets for every non-apartment property they value by the income approach. There are hundreds of these spreadsheets being managed by each appraiser. There are no general income models being used in these spreadsheets. Instead, appraisers estimate market rent for each property individually, usually based on the most recent leases signed for that property.

⁵ The property identification code used in the District.

Since each individual appraiser estimates the market value for each of her or his assigned properties, there is the potential for inconsistent application of the income approach to like properties. For example, one appraiser might estimate that the market rent on a particular Class A office building is \$50 per square foot, while for a similar building in an adjoining neighborhood, the estimated market rent might be \$60. This kind of disparity can occur when general income models are not created and utilized by all commercial staff. The potential for under-valuing or over-valuing is more likely to occur when appraisers do not work together to create models for all income producing property types.

The process is excessively time-consuming. In addition to the potential for disparities, the sheer challenge of manually applying the income approach individually to hundreds of properties every year is a daunting, time-consuming task. A commercial supervisor said he spends as much as 75 to 80 percent of his time preparing spreadsheets on individual properties. Although all properties are being assessed, taking a “one at a time” approach is extremely time-consuming and is probably not the most efficient way to ensure all properties receive a fair and accurate assessment.

Capitalization rates are insufficiently rooted in direct market evidence. As noted, RPAD relies primarily on the Delta cap rate study. This study is based on a survey of real estate professionals in the D.C. real estate industry. Although this method is not specifically prohibited, it is not a method that is preferred in the appraisal community.

An industry standard text, *The Appraisal of Real Estate* states: “Surveys of overall capitalization rates based on the market expectations of lenders and owners are available, but such data should be rigorously scrutinized.”⁶ It also says that deriving capitalization rates from comparable sales is the preferred technique when sufficient data on sales of similar, competitive properties is available. The RPAD Assessment manual describes several acceptable steps for extracting cap rates from comparable sales.⁷

In discussions with several commissioners on the Real Property Tax Appeals Commission (RPTAC), one of their concerns was the Delta cap rate study. They wondered why RPAD didn’t conduct its own cap rate study when it had the actual income and expenses from sales. During 2013 level 2 appeals, attorneys from the law firm Wilkes-Artis (the most frequent district property tax petitioner) attacked the methodology used in the cap rate study.⁸ Because the methodology used by Delta is mostly opinion survey data instead of actual extracted cap rates, the district is subject to criticism and potentially overturned assessments.

The sequence of the deadlines for issuing assessment notices and for filing I&E reports. The Code requires RPAD to mail out assessment notices by March 1st of each tax year.⁹ However, the deadline to submit a completed Income and Expense survey is April 15th. So the most valua-

⁶ Appraisal Institute, *The Appraisal of Real Estate*, 13th edition, page 501.

⁷ RPAD Assessment Manual Volume 1, page 207.

⁸ See 2013 appeal on 1801 K Street N.W.

⁹ District of Columbia Code § 47-824

ble information for determining income variables is not available until after the assessments are set. Additionally, other sources of commercial property data, such as industry surveys and trends, are not prepared until 4th quarter data is available. Because the assessment notice deadline is so early in the year, it creates a significant problem for income model building since RPAD must analyze data quickly and sometimes without the benefit of all the needed data.

The spreadsheet methods effectively appraise properties on a leased-fee basis rather than a fee-simple basis as is implicit in the market value standard. In the District, the assessed value for real property is based on “estimated market value”. D.C. code defines market value as “100 percent of the most probable price at which a particular piece of real property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would be expected to transfer under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other.”¹⁰ That definition reflects fee simple market value, not leased fee value.

The worksheets used by the Major Property Unit employ techniques that are oriented toward leased fee valuation (the valuation of only the owner’s interest in the property), not fee simple (the value of all privately owned interests in a property). Specifically, the rent overage/shortfall utilized in the offline income approach subtracts actual rent from market rent and that difference is added or subtracted from the value arrived at in the direct capitalization approach. That adjustment results in leased fee valuation, because it values the property based on actual rent, instead of market rent. This can result in an over-assessment for properties with above-market rent, and under-assessment for properties with below-market rent.

In discussions with commercial appraisers, we were told the reason RPAD makes adjustments for the rent overage/shortfall and rehab costs/tenant improvements stems from the District’s loss of a property tax case, informally known as “National Place.”¹¹ That was a Superior Court case involving the 1992 assessment of a mixed-use commercial building. In that case, the court ruled that the assessor must consider the influence that actual leases have on value. The court overturned the assessment because the assessor did not adequately consider long-term leases in effect on the property. That ruling seems to contradict the principles of fee simple valuation.

The system is fragile. Spreading the maintenance and analysis of the data necessary to assess and defend the values of large numbers of commercial properties among the large number of Excel files used by the various appraisers is an inherently risky proposition. To its credit, RPAD has recognized the risks inherent in using such a decentralized system and has begun to seek out more centralized software that would provide better management and audit controls for the discounted cash flow (DCF) analyses now done on Excel. However, DCF as usually practiced is more a tool for counseling investors who may be seeking to optimize their turnover period given various federal tax provisions than it is a mass appraisal tool. As noted elsewhere, we recommend that greater attention be given to developing models suitable for mass appraisal rather than

¹⁰ District of Columbia Code § 47-802 (4)

¹¹ Superior Court of the District of Columbia Tax Division, Nos. 5292-92, decided March 29, 1999.

relying exclusively on the one-at-a-time approach typified by DCF analyses. Thus pursuing centralization possibilities in CAMA software seems likely to be a better approach than seeking to replace the Excel based analyses with a commercial off the shelf (COTS) package that would centralize DCF analyses but be more addressed to the needs of fee-appraisal or management companies than to assessor's offices.

Mass appraisal models are underutilized. Apart from residential properties, there is little done in the way of developing valuation models for mass appraisal purposes, the present focus, as noted above, being on one-at-a-time appraisals. Nevertheless much of the essential infrastructure for developing such models is available for use. Notable among such resources are the CAMA systems, the experience the staff has built up with it in connection with residential properties, its valuation manager, and his integration of it with ancillary statistical tools. Also of note is the office's geographic information system (GIS), which although less capable than some found in other jurisdictions where geostatistical analyses are possible, is perfectly adequate to support modeling activities by reporting such value influences as metro stops and traffic patterns and plotting data spatially.

We also noted that over the past three years CAMA records were updated less frequently than might be expected. Counting all logged CAMA updates in the past three years excepting changes to assessed values, we noted about 36 percent of the major property records went unchanged, while about 42 percent of the general commercial records were unchanged. A review of commercial land assessments indicated that about 20 percent of properties had no change in land value from 2012 to 2013. Although this could be attributed to a flat market, it's possible that the unchanged parcels slipped through the cracks with so many appraisers responsible for land value. Ideally the system would have been used to record not only the income and expense submissions,¹² but also the dates of any appraisal review of the property or its estimated value.

Although the major infrastructure for model development as envisioned here is available, there remains much work to be done. A locational concern is the lack of appraiser-defined geographic areas for commercial properties. There are CoStar market areas, but they are not represented in the Vision database.¹³ Separate geographic areas are warranted for office, retail, apartments, and industrial properties, but nothing of this nature has been developed at present. A reconciliation of the Vision income system and characteristics data will also be needed. The income system allows for certain open-ended parameters (e.g., rental rates based on user-defined property types and geographic areas) and limited adjustments thereto that are *not* tied to property characteristics. For example, one can define certain use codes for costing and others for income analysis, although the latter have only been populated for apartments. In short, what is maintained for costing, what is maintained for income analysis, and what is collected on I&E forms needs to be reconciled.

¹² We note elsewhere our belief that the present versions of these statements are too detailed and too cumbersome for both respondents and RPAD. Nevertheless, they do constitute a valuable resource in principal and are worth mining even in their present form and even if our recommendation to move away from the one-at-a-time approach is adopted.

¹³ CoStar is a data service that publishes a number of real estate information products covering about 140 U.S. markets, including DC; see <http://www.costar.com>.

2.1.1.3 Recommendations

1. The District should transition from valuing commercial properties one at a time with of-line spreadsheets, to building income models and integrating them into the Vision CAMA system.

The IAAO's *Mass Appraisal of Real Property* defines mass appraisal as "a systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing."¹⁴ Currently, there is no systematic approach to income modeling for non-apartment commercial properties.

2. Models for each property type should be created. Property types should be stratified into classes so that individual models can be created and applied to like properties.
3. Instead of each appraiser researching his or her own market rent, vacancy, and expenses and assigning those to individual properties, the district should coordinate this effort in an organized way.

Once the commercial appraisal section of RPAD is re-organized by property type (as we recommend in Section 3), the various teams would compile data relevant for each of their assigned property types. Reports from industry publications, sales statistics, and data compiled from available income and expense surveys would be organized and analyzed by property type. The Pertinent Data Book that is currently published by RPAD should be modified to include descriptions and data sources for the newly created income models.

4. The income models should include estimates of market rent, market vacancy rates, market expenses and capitalization rates.

Assuming that the constraints imposed by the National Place case can be addressed, RPAD should discontinue its use of the rent overage/shortfall technique and only utilize market rent in its estimate of commercial property value. RPAD should also discontinue its routine use of a discounted cash flow to estimate the present value of the rehab costs/tenant improvements, and instead build a tenant improvement allowance into the income models. All models should be driven by market rents, vacancy rates, and expenses. Although adjustments are often needed for property specific issues, they should not be made to reflect above or below-market rent. The District should consult with competent legal authority regarding the National Place decision to determine how best to reconcile the court's order with the mandate for market value in District code.

5. RPAD should create an in-house capitalization rate study.

¹⁴ IAAO's *Mass Appraisal of Real Property*, page 23

Although confidentiality would prevent RPAD from publishing capitalization rates on individual sales, it could aggregate cap rates by property type to bolster those provided by Delta. Additionally, it should supplement the capitalization rates extracted in-house and the Delta cap rate study with those published in other industry reports, such as PWC Real Estate Investor Survey, RealtyRates.com, Real Estate Research Corporation (RERC), and Integra Realty Resources. As mentioned earlier, discussions with commissioners on the Real Property Tax Appeals Commission (RPTAC) and even RPAD staff indicated that cap rates are the most common target for tax appeals. It would serve the office well if it put significant effort into developing a cap rate study that included all possible sources.

6. Once models are created, they would be input into the Vision CAMA system so that commercial properties could be valued systematically en masse.

Reports could be run to ensure that each property has the correct model assigned for consistency across property types. Ideally, the process would be managed by one person, who could receive the data from each property type team and assemble it into the Pertinent Data Book or income modeling report. Additionally, the income approach modeling documentation could be used during the appeals process. Developing income models and applying them to like properties will provide consistency in the treatment of the income approach for commercial properties. Documenting that process will assist RPAD in both developing assessments and defending appeals.

7. Responsibility for commercial land valuation should be consolidated to one or two appraisers so that more consistent results would be achieved.

Elsewhere we recommend that commercial appraisers be organized by property type; here we suggest that one such specialization be land valuation, which for commercial properties, could encompass both vacant and improved land.¹⁵ The commercial land team would review and analyze all commercial vacant sales in the district and develop rates for all neighborhoods. In the absence of vacant sales, the abstraction approach should be used. This method utilizes improved sales to extract land value. In discussing the abstraction approach to land value, IAAO states: *"This method is sometimes referred to as the land residual method. It requires the appraiser to calculate the depreciated value for the improvements and then deduct this value from the sales price. The remaining value (the residual) is the indicated value of the land."*¹⁶

8. OTR should explore ways to better align assessment notice and I&E questionnaire deadlines.

Because the law requires assessment notices to be sent by March 1st, RPAD is handicapped in its ability to create income models using market data from the most recent year. These data are typically not available until assessments are set. Moving up the income and expense survey deadline earlier in the year would probably not be effective since most businesses would not be prepared

¹⁵ In this context vacant refers to unimproved land, not the third class of (uninhabited) property in the District.

¹⁶ Appraisal of Land, IAAO Course 201, Copyright 1996, International Association of Assessing Officers, page SRM-3-25.

to respond fully. A possible solution would be to delay the assessment notice deadline. That could give the office more time to obtain and process the data necessary to value commercial properties. Although this would require legislation, it is an issue that has an impact on the accuracy of the appraisals of the District's most valuable properties.

2.1.2 Underlying Data Acquisition

2.1.2.1 Current Situation

Valuation quality is dependent on the accuracy of the descriptive data on the properties that are being appraised and on the accuracy of the indicators of market values that are being used. Although RPAD recognizes the importance of periodically re-inspecting all properties in addition to selectively inspecting those for which permits have been issued, have been sold, or whose assessments have been appealed, it appears that it cannot timely inspect all properties. However, RPAD's *Real Property Assessment Manual*, Vol. 1, *Procedures*, contains acceptable procedures for making on-site physical inspections of properties and for verifying sales.¹⁷ Moreover, RPAD regularly receives information on building permits from the District of Columbia Regulatory Agency (DCRA). It also receives data on sales from the Recorder of Deeds, another component of OTR. These data include the price paid for the property and information on the circumstances of sales.

The manual also addresses the processing of income and expense questionnaires. Notably, owners of properties who are sent questionnaires are required to complete them and return them to RPAD or be subject to a 10 percent tax penalty.

The income and expense (I&E) data utilized in the worksheet originates from the survey responses submitted by taxpayers. Each year RPAD sends income and expense questionnaires to commercial property owners. Requested information includes actual rent, vacancy, expenses, building repairs, and other property specific information. The Code requires property owners to respond to the survey or incur a 10 percent tax penalty.¹⁸ Responses are confidential. RPAD describes its income and expense filing program process in its Assessment Manual.¹⁹

The surveys are sent mid-February, and the deadline for their return is April 15. When the forms are returned to the office, they are date stamped, reviewed for completeness and sent to a vendor for processing. The vendor scans the surveys and uses Optical Character Recognition (OCR) to extract certain data. Then it transfers that data into Excel spreadsheets. The scanned surveys and data are returned to RPAD late in the year, usually in October.

¹⁷ Relevant sections of the manual begin on pp. 48, 57, 100, 112, 190, and 325.

¹⁸ District of Columbia Code § 47-821(d)(1).

¹⁹ RPAD Real Property Assessment Manual, Volume 1 pages 325-329.

The Office of the Inspector General's Office audited the income and expense process in 2009.²⁰ That audit focused primarily on tracking returns and penalties associated with non-filers. Since then, the District has implemented controls to ensure that non-filers are identified and penalized. If a taxpayer is penalized, the 10 percent penalty only appears on the tax bill -- not the assessment notice. For the 2013 tax year, about 10,800 surveys were sent. Of those, about 7,500 were returned: a 70 percent return rate. That is a significant improvement over the 50 percent return rate identified in the 2009 audit.

The Vision CAMA system includes an income approach module that allows the input of actual income and expense information from survey responses. A full description of the data-entering steps can be found in the Vision CAMA manual.²¹ But the survey data are not being input into the CAMA system. Instead, an outside vendor processes the forms and makes the scanned data available to appraisers via third party software known as Alchemy.

The District has five different income and expense forms. There is a separate version for apartments, offices, general commercial, hotel and industrial. The forms vary in length, but most contain at least ten pages. Half of those pages require input from taxpayers, and the rest consist of instructions for completing the forms.

2.1.2.2 Conclusions

We have several concerns with this process. The primary problem is timing. Tax notices are sent March 1, which obviously means assessments need to be finalized prior to that date. Because the deadline to return surveys is April 15, they are not available for valuation purposes for the most current tax year. This lag between the valuation date and the survey deadline makes it impossible to integrate the most recent data from surveys into the current-year assessment process.

Although the *prior* year's survey data are available, they are not being used to develop values for the current tax year. The stated reason for not using the prior year's data is that they are dated. RPAD appraisers will sometimes use the prior-year survey data to set assessments on individual properties, but they are not being globally compiled and analyzed for model building purposes.

The income and expense surveys are too long and complex. Much of the information requested in the survey is not used by RPAD. Because of the complexity, returned copies are often incomplete or incorrect. The complexity deters completion of the forms, possibly leading many property owners to ignore them and instead incur the penalty for not filing.

Appraisers do not review the survey responses when they are returned by property owners. Thus there is neither prioritization of the responses nor any editing of them for obvious errors. The appraisers often see the income and expense data for the first time during appeals.

²⁰ Audit of the Management of Commercial Property Income Expense Reports – May 15, 2009 (OIG No. 08-2-01AT).

²¹ Real Property Assessment Manual Vision CAMA Manual - Pages 689-696.

Moving the survey response deadline to earlier in the year would probably not help because many businesses have not completed their financial reports (IRS filing deadlines are not until March or April). However, moving the assessment notice deadline from March 1 to June or August would give RPAD enough time to receive income and expense surveys and utilize the data to create income models. This would require legislative action by the Council.

In many jurisdictions, individual income and expense survey responses are input into the CAMA system by individual commercial appraisers. However, because the law requires taxpayers to respond to surveys, the District enjoys a much higher return rate than most jurisdictions. This results in more than 8,000 responses, an amount that would be difficult for commercial staff to individually input into the system. Using an outside vendor to process the returns is probably the most efficient way to get the data into electronic format for uploading into the CAMA system.

2.1.2.3 Recommendations

9. The income and expense questionnaires should be simplified.

Reducing the form to two pages would make it much easier for the taxpayer to complete and would likely reduce errors and increase the return rate. It would also be easier for RPAD to analyze. The form should be modified to match defined table structures in the Vision CAMA system, so the taxpayer only needs to provide the data needed for valuation. In designing the new forms, the District may benefit from reviewing sample income and expense surveys used by other jurisdictions.

10. Once the surveys are re-designed, appraisers should review them prior to sending them to the outside vendor for data entry.

They could be marked as (a) complete/usable, (b) incomplete or questionable, or (c) unusable or invalid. They could also correct any obvious errors (e.g., annual rent reported as monthly rent or something reported on wrong line). Groups (a) and (b) could then be sent for keying or scanning. Once the income and expense surveys have been redesigned to match the relevant fields in the CAMA system, the forms will be more user-friendly for both taxpayer and assessor.

11. After they are reviewed, returned income and expense surveys should be uploaded to the CAMA system.

Once that is done, data for each property would be available within the CAMA system on all commercial properties. That would allow individual and global analysis. Until that happens, survey data from prior years should be analyzed by property type and neighborhood as part of income model building. Although the data is a year old, it is valuable information that could be supplemented with industry reports to develop models. Combining prior year survey data with current year industry reports will allow RPAD to develop income models for most commercial properties.

2.2 Performance Measurement

2.2.1 Ratio Studies

2.2.1.1 Current Situation

Ratio studies, the pre-eminent measure of valuation accuracy in assessment performance, are conducted and published annually by the Real Property Tax Administration. They have been published separately at least for 2009, 2010, and 2011, and for 2012 were included as part of the published Assessor's Reference Materials, all freely available from the official internet site. They include appropriate explanatory material, and compare the performance achieved by the office to internationally recognized standards promulgated by the International Association of Assessing Officers (IAAO). Further, RPTA makes available (at a cost of \$150) a so-called "PRE CD-ROM" disk containing all the data necessary for interested persons to conduct their own studies of assessment performance.

2.2.1.2 Conclusions

To all appearances, the office is doing a reasonable, even commendable, job of managing its valuation and quality-control responsibilities. Nevertheless, some material weaknesses were noted in the area of ratio studies, which affects their usefulness as a tool for performance measurement.

Mismatch between sample sizes and stratification. For commercial property the number of sales is much less than for residential property. Thus a problem arises in applying the stratification system appropriate for residential property to commercial property – the available sample sizes are rarely adequate to permit conclusions about whether an acceptable job is being done on such properties. This could be resolved in several ways, two obvious ones being to stratify on the basis of types of properties rather than small geographic areas and another being to aggregate neighborhoods into a smaller number of neighborhood groups or economic areas, with the goal of preserving substantial economic homogeneity within each group. A third possibility, enlarging the sample by drawing sales from a longer time period, with adjustments for time as appropriate, may also be useful, although it is not relevant in all situations.

Undisclosed trimming of sales at relatively high rates. Another problem is that the results are reported without revealing that the validated sales have been trimmed of so-called outliers and extremes, leaving the reader to conclude that the report represents the results obtained from all sales judged to have been valid indicators of market value (i.e. to have been unaffected by the inclusion of family transfers, foreclosure, excessive personal property, etc.) In fact, the reported results would have been substantially worse if all sales that assessors affirmatively indicated to be valid indicators of market value were included in the calculations. Trimming is permitted, but not required by the IAAO standard, which has the following to say on the subject:

The preferred method of handling an outlier ratio is to subject it to additional scrutiny to determine whether the sale is a non-market transaction or contains an error in fact. If an error can be corrected (for example, data entry), the property

should be left in the sample. If the error cannot be corrected or inclusion of the identified outlier would reduce sample representativeness, the sale should be excluded.... However, trimming of outliers using arbitrary limits, for example, eliminating all ratios less than 50 percent or greater than 150 percent, tends to distort results and should not be employed.... If a trimming method has been used to reject ratios from the sample, this fact must be stated in the resulting statistical analysis. ... It is also appropriate to set maximum trimming limits. For small samples, no more than 10 percent (20 percent in the most extreme cases) of the ratios should be removed. For larger samples, this threshold can be lowered to 5 to 10 percent depending on the distribution of the ratios and the degree to which sales have been screened or validated. Trim limits should be developed in consideration of the extent of sales verification. ... Ratio study reports or accompanying documentation should clearly state the basis for excluding outlier ratios. Statistics calculated from trimmed distributions, obviously, cannot be compared to those from untrimmed distributions or interpreted in the same way.²²

For the 2012 ratio study there were 30 commercial sales excluded as outliers out of a pool of 199 single-parcel commercial sales, for a trimmed fraction of about 15 percent. This is too high for a sample so large, especially in view of the failure to disclose the existence and magnitude of the trimming. Additionally, the procedure employed is specifically criticized in the IAAO standard. The trimming was done by excluding sales with ratios more than 60 percent lower or higher than the target ratio, just as IAAO in the quote above says should not be done, although in that example the percentage used was 50 not 60 percent.

Inadequately controlled validation process. Possibly the most serious shortcoming of the ratio study is an apparent lack of control over the process of qualifying sales. The objective is, or should be, to maximize the size of the pool of available sales, since larger samples generally provide more reliable statistical evidence than smaller ones, but not to allow the sample to be contaminated by sales that fail to reflect market value. We observed problems in both respects. Sales occurring as part of a multi-parcel transaction, a frequent occurrence among commercial transactions, are systematically excluded from the study, rather than being reviewed for validity and used by comparing the sale price to the sum of the assessments of the parcels involved. This is problematic both because an opportunity to enlarge the sample is thereby forgone and because some of the larger-value transactions involve

multiple parcels that may be transferred as a single economic unit. Excluding them deprives the sample of representation in the higher range of value, potentially biasing it. Since economic units are not indicated as such on the parcel records, some care must be taken in such analyses, but the process is made easier by the fact that the instrument number on the deed, which lists all parcels in the transaction, is available as a means of identifying and grouping them for a consolidated analysis.

²² Standard on Ratio Studies, IAAO, 2010, pages 53-54.

There is also an issue of an apparent lack of care in processing sales. Among the 2012 commercial sales we observed three instances of assessments being recorded as approximately one thousand times higher than the recorded sale price. Evidently in each of these cases the sale price was mis-recorded by someone failing to key three zeros in the early part of 2011. A fourth sale that was coded as valid was at a price 60 times higher than its assessment. Each of these four sales was identified with a different appraiser, although all of them were in the major properties section. A year and a half later the presumed errors appear to remain uncorrected. This speaks a too casual attitude toward the general issue of measuring assessment performance and ensuring that attempts to do so are as valid and comprehensive as possible.

2.2.1.3 Recommendations

12. Management should review all facets of its performance evaluation system with a view to ensuring all valid sales participate in the ratio study, including multi-parcel sales.

Management should take action to ensure the validity of its performance measurement tools. It should review all facets of the process for weaknesses and correct any that are found. In particular, we recommend that multi-parcel sales be carefully reviewed and that a way be found to utilize them in assessment ratio studies when it is appropriate to do so.

13. Staff from the Standards and Services Unit should review sales validation efforts to ensure their integrity and to investigate and resolve outliers and extremes.

We recommend that a responsible staff person, perhaps in the Standards and Services Unit so as to minimize any vested interest in making the outcome “look good,” perform a secondary review of sales with a view to maximizing sample size subject to the constraint that nonqualified sales should be excluded and multi-parcel sales should not automatically be excluded. Such a person should also be responsible for ensuring that outliers are investigated and that data entry errors are promptly remedied.

14. Procedures used in the District’s ratio studies should be brought into conformance with IAAO standards, especially with respect to trimming, but also with respect to stratification, documentation, and other matters.

The office should also take steps to ensure that trimming procedures comply with standards and that data are stratified by geography, responsible appraiser, and other relevant criteria. The IAAO standards provide excellent guidance in this respect. The District’s own Assessment Manual, at pages 57 through 71, also describes in an admirable fashion the sales review process to be employed for residential properties, but is silent in this respect for commercial properties, an omission that should be remedied.

2.2.2 Inferences from Appeals

2.2.2.1 Current Situation

Although the scope of the review did not specifically include an analysis of the accuracy of the results of commercial property assessments as measured by the valuations of those properties on appeal to the first external review agency (that is, to RPTAC), the issue has gained a substantial amount of press, so we have investigated it. Two potentially relevant datasets were obtained. The first was a database maintained by BRPAA that contained two relevant tables: “Appeals” and “Decisions.” The other was an RPAD database that included a table called “BRPAA.” There were notable discrepancies between the two datasets. BRPAA’s Decisions table was judged to be less reliable than RPAD’s BRPAA table on a number of grounds, including (1) for the sample of recent-year discrepancies we tested we were able to trace the RPAD figures, and not those from the BRPAA Decision table, to the assessment roll as recorded on the previously mentioned PRE CD-ROM and (2) the BRPAA Decision table included multiple instances of obvious keystroke errors involving repeated digits, dropped digits, and run-together numbers, including a 12-digit value on a 6-digit property. We therefore determined that only the BRPAA table obtained from RPAD would be analyzed further.

We compared the results reported there to those achieved by another large jurisdiction for which comparable data were available, Cook County, Illinois. The relative magnitudes of the changes made by BRPAA and those made by the Cook County Board of Review (a second-level appeal agency) can be seen in the graphs of Appendix 1. The District’s plots generally exhibit a somewhat closer overall association between the original assessment and the post-appeal value, although this is to be expected because the number of appeals in the District is only four to six percent the number in Cook County. Notice that the plotted points represent the pre-appeal assessed value on the horizontal axis and the post-appeal value on the vertical axis. Thus parcels that lie on the diagonal line were unchanged on appeal, and those that plot below the line obtained a reduction on appeal in the amount of their vertical distances from the diagonal. Note the logarithmic axes that make it possible to fit the huge range of data into a manageable plot also make precise measurement of such reductions on the graph a little difficult. The parcels plotted atop the horizontal axis are those that were exempted upon appeal, and those above the diagonal are properties whose assessments were raised upon appeal. In addition to the District’s generally tighter fit it is noteworthy that the plots also reveal a somewhat greater tendency for the District’s highest valued properties occasionally to have greater reductions from their original assessments (exclusive of reductions to zero or less than \$100) than is the case in Cook County. In both 2006 and 2010 there were separate instances of a multimillion dollar parcel receiving a reduction on the order of 90 percent, for example. In view of the very different numbers of appeals in the District compared to Cook County, we decided to compare the goodness of fit of assessments to appeals statistically in addition to graphically.

2.2.2.2 Conclusions

After eliminating all assessments that were reduced on appeal to a value less than \$100, we measured the statistical association between pre-and post-appeal assessments. In view of the wide range of assessed values being reviewed, we first transformed the assessments logarithmically to ensure that comparability would be measured on the basis of percentage differences between the two assessments rather than dollar differences. We then performed a linear regression to determine how well the pre-appeal assessments were able to predict post-appeal assessments.

The regression procedure fits the diagonal line that minimizes the sum of the squares of the vertical differences between the predicted post-appeal assessment and the actual post-appeal assessment over all the assessments being analyzed.²³ We also compared the goodness of fit of the lines for the District compared to the lines for Cook County. The statistic we used for this purpose is the adjusted R-squared statistic, which can be thought of as essentially equal to the correlation coefficient; higher numbers are better, indicating a closer association between the two measures. The results are shown in Table 2-1.

Table 2-1: Comparison of the Goodness of Fit between Original Assessments and Post-Appeal Assessments for District of Columbia and Cook County, by Year, as Measured by Adjusted R-Squared

Jurisdiction	Overall	2006	2007	2008	2009	2010	2011	2012
District of Columbia	.992	.992	.994	.988	.991	.994	.967	.992
Cook County	.988	.984	.979	.979	.969	.978	.982	NA

As can be seen in the table, except for 2011, the last year for which comparative data are available, the District's assessments tended to explain slightly more of the variation in post-appeal values than the Cook County assessments did. The numerous reductions for approximately \$100,000 assessments in 2011 appear to have caused the noted drop in that year, which was reversed the following year. Thus it seems reasonable to conclude that the accuracy of commercial assessments in the District, as measured by post-appeal valuations, is not unreasonably poor. The large, although quite rare, reductions for small numbers of high-value parcels constitute cause for concern, especially if they were to persist.

2.2.2.3 Recommendations

15. Management should continue to monitor the quality of its valuation performance as it already does via its appeals tracking system, recognizing that a superior measure of performance is found in assessment to sales price ratio studies, the subject of Section 2.2.1.

Efforts to determine (and rectify) the causes of large outlier changes, such as the large decreases in assessments for single high-valued properties in 2006 and 2010 should be made.

16. Some form of quality assurance, whether double key entry, embedded consistency edits, or some other alternative, should be considered for the appeals monitoring system used by RPTAC.

²³ Squaring the vertical differences is standard procedure and penalizes big differences more than more numerous smaller ones.

2.3 Value Defense

2.3.1 Current Situation

Consistent with standards, there are three levels of appeal available to Washington, D.C. property owners: first level administrative review, second level appeal before the Real Property Tax Appeals Commission (RPTAC) and the third level, an appeal to Superior Court. Note that taxpayers can appeal the assessments of their properties and/or their classifications. Level-one hearings begin in April and run through July. Level-two hearings begin in September and run through the following February.

First Level Appeals — Washington, D.C., property tax notices are sent out by March 1 of each tax year. Taxpayers have until April 1 to file a first level appeal,²⁴ which is an administrative review by the staff of RPAD. Although this level is somewhat informal (held in RPAD conference rooms), it does require a formal appeal. The process for managing first level commercial appeals is described in RPAD's Assessment Manual.²⁵ An appraiser meets with the taxpayer, exchanges evidence and, if warranted, an adjustment to the assessment could be made. Depending on the amount of a proposed assessment reduction, a superior must approve it. For example, a reduction of more than 10 percent or \$1,000,000 requires a unit supervisor's approval. A value change between 10 percent to 40 percent or \$4,000,000 requires approval from both the unit supervisor and the hearing officer. These guidelines are detailed in the RPAD Assessment Manual.²⁶ First Level Appeals must be completed by August 1.

Second Level Appeals — If a taxpayer is not satisfied with the results of first level appeal, he or she has 45 days from first-level notice of final determination to file an appeal with the RPTAC. Hearings for this level are more formal and are held at the offices of RPTAC in Judiciary Square. The hearings are conducted before three commissioners who listen to evidence presented by both sides and make a binding decision concerning the assessment (or classification). Taxpayers must go through the first-level process before they can file a level-two appeal.

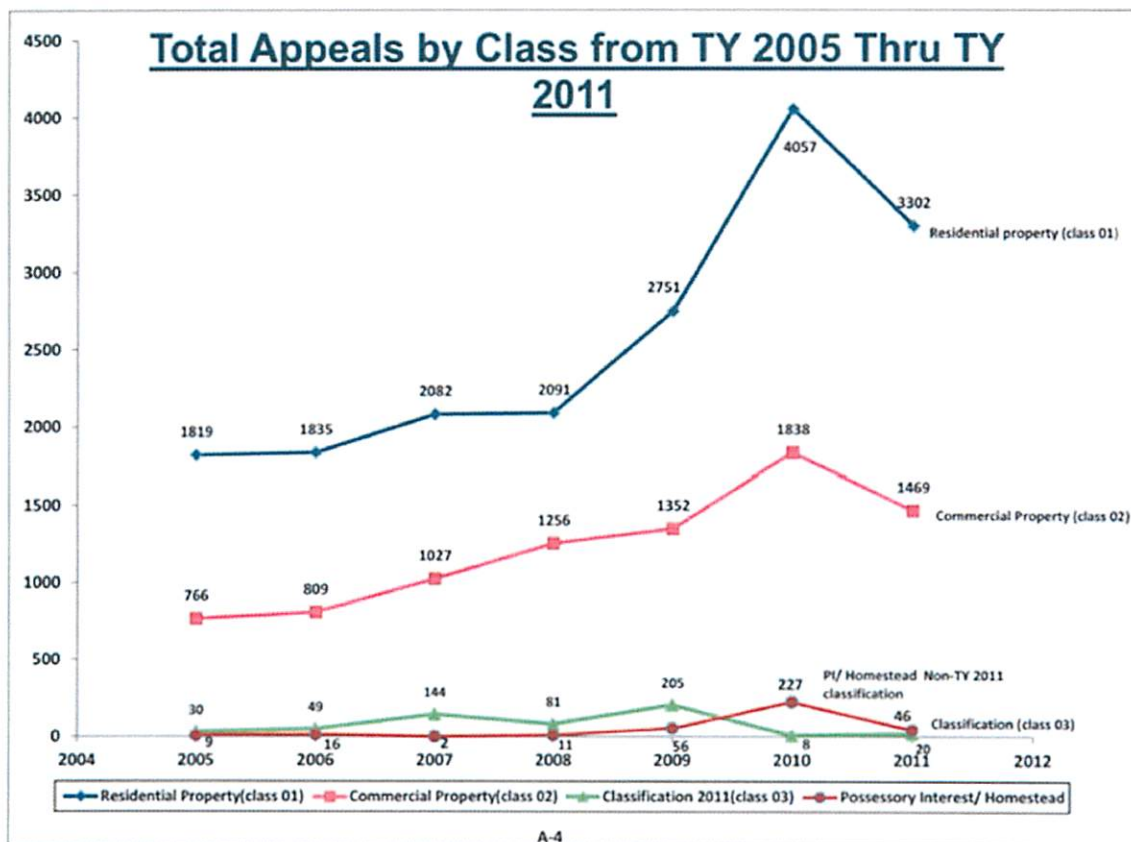
The volume of second-level appeals had increased steadily over the years, before declining beginning in 2011. Figure 2-1, provided by RPTAC, illustrates the number of appeals from 2005 to 2011. Although the chart doesn't display it, the total number of appeals declined to 4,016 in 2012.

²⁴ District of Columbia Code §47-825.01(f-1)(1)(A)

²⁵ RPAD Real Property Assessment Manual, Volume 1 page 224.

²⁶ *ibid*, page 229.

Figure 2-1



In the past several years, there was considerable criticism concerning the appeals process in Washington, D.C. In 2008, a critical audit was performed on the Board of Real Property Assessment Appeals (BRPAA).²⁷ In July 2012, the BRPAA was abolished and replaced with the Real Property Tax Appeals Commission (RPTAC).²⁸

One of the primary changes with the newly created Real Property Tax Appeals Commission (RPTAC) is the appointment of full-time chairperson and vice chairperson, four full-time commissioners and six part-time commissioners. The full-time commissioners will hear commercial property appeals and the part-time commissioners will hear residential appeals and other real property valued under \$3 million. The expectation is that the process will be more efficient since the members will be able to focus all of their attention on property tax appeals.

From the perspective of RPAD, the changes will probably be minimal. Most of the full-time commissioners who will hear commercial appeals were also members of the former Board of

²⁷ DC Auditor's Review of the Board of Real Property Assessments and Appeals Operation, September 30, 2008

²⁸ District of Columbia Council Act-19-362.

Real Property Assessments and Appeals (BRPAA). Since many high-value commercial properties in the district are represented by relatively few law firms and tax agents, hearings at RPTAC will be largely similar to those held at BRPAA.

For the 2012 tax roll, there were 4,016 second level appeals. Of those, approximately 2,400 were commercial properties.²⁹ There were over 1,300 properties with an assessed value greater than \$10 million. Properties with assessments over \$10 million incur significant ad valorem taxes and are regularly appealed. Because of the significant number of high-value properties in the district, law firms and tax agents often appeal the same properties year after year. As a result, RPTA must defend those values at hearings, often being challenged by attorneys, designated appraisers and tax agents who specialize in reducing assessments.

Third Level Appeals — If a taxpayer has failed to achieve a value reduction or re-classification at level one and level two, he or she can appeal to the tax division of Superior Court of the District of Columbia. The deadline for filing an appeal with superior court is Sept. 1. The district currently has a caseload of about 1,200 superior court property tax cases. Not surprisingly, most of these are commercial properties. In an attempt to reduce the caseload, settlement mediations are held every week. The district has only litigated a handful of superior court cases in the last several years.

For Superior Court cases, attorneys representing taxpayers typically hire designated appraisers (usually MAIs)³⁰ to prepare USPAP-compliant appraisal reports. For those same cases, RPAD prepares an in-house “expert report” for defending the assessments. The RPAD staff member who prepares the expert report is not state licensed to perform appraisals (no license is needed to create the assessment). As a result, the expert report is not described as an “appraisal,” but instead a “Real Property Assessment Summary Report.” The report resembles an appraisal, but technically is not. The 32-page sample “expert report” provided on a \$102 million office building would have been ample evidence in a level-two hearing, but an MAI appraisal would probably be more effective in Superior Court.

RPAD does have staff dedicated to the appeals process. The litigation unit consists of 5 employees, including an attorney/supervisor. The unit mostly serves a clerical function, managing the inflow and outflow of appeal related documents. For level one, the litigation unit supervises the intake of appeal, the creation of folders and distribution to appraisers.

2.3.2 Conclusions

RPAD appraisers spend a considerable amount of time either preparing for or attending appeal hearings. As mentioned earlier, level-one hearings begin in April and run through July. Level-two hearings begin in September and run through the following February. So the only month RPAD is not actively involved with appeals is August. Taxpayers have to go through the level-

²⁹ Spreadsheet provided by RPTAC (brpaa_appeals_for_2012_ty_zm.xls)

³⁰ The designation stands for Member of the Appraisal Institute, considered to be one of the most prestigious among a number of possible designations.

one process to advance to level two. As a result, thousands of properties go through two hearings, requiring RPAD staff to defend the assessment twice.

During the 2012 level two hearings, sixteen RPAD commercial appraisers defended assessments. On average, they attended about 150 hearings each. Level-two hearings are conducted at RPTAC offices in Judiciary Square, some distance from RPAD offices. This causes a constant stream of staff traveling back and forth between hearings. Because RPAD appraisers dedicate so many months to appeals, they have little time to develop models and value properties.

Commercial properties are some of the most valuable properties in the district. Because of the property tax dollars at stake, taxpayers often hire property tax attorneys, licensed appraisers and tax agents to file appeals on their behalf. In our discussions with RPAD staff, they often felt “out-gunned” in tax appeal hearings. Typically, these experts prepare extensive reports with significant supporting data. If the property is valued by the income approach, commercial appraisers from RPAD usually submit a direct cap/DCF income worksheet and a “summary” page in which the individual appraisers briefly describe the issues related to the property. Appraisers will also refer to the Pertinent Data Book for sales and CAP rate information. The limited evidence submitted by RPAD staff is often overshadowed by the data and analysis submitted by tax attorneys and appraisers.

Because RPAD makes adjustments to properties for actual vacancy, actual tenant turnover and actual rent, the attorneys and tax agents have adopted those same methods. As a result, high-value properties often receive significant reductions — either by RPAD or the appeals board — to reflect actual vacancy, rent, or expected tenant turnover. This approach yields a leased fee valuation for many properties that are experiencing non-market rates (Washington, D.C., code requires fee-simple valuation, not leased-fee). The assessor makes an estimate of market rent, vacancy, and expenses, but will typically reduce the assessment if the actual performance of the property was different. This has led to a scenario where attorneys and tax agents argue for reductions — not based on market conditions, but based on normal property specific vacancy and tenant turnover.

RPAD appraisers have historically represented properties in their assigned geographic areas. In 2012, there were 15 different appraisers in the District who defended the values of office buildings at level-two hearings. The situation is the same for retail, multifamily and vacant properties. As noted in our discussion of organizational issues in Section 3, under the current organizational structure, all appraisers must become experts in many different property types or face losing against motivated petitioners at the appeals board. It is unreasonable to expect an appraiser to become an expert in all property types, even if they are limited to one geographic area.

RPAD now has 1,200 active Superior Court cases. We were told that the number had tripled since 2007. The majority of these cases are high-value commercial properties. The “expert report” used by RPAD to defend assessments in Superior Court is not adequate. The district is at a disadvantage using RPAD staff to defend assessments in Superior Court when the opposition utilizes experienced MAI appraisers. Even if the assessment could be supported, the qualifications of MAI appraisers and the depth of work they perform typically overshadow that of the

RPAD staff. Much as at level-two hearings, RPAD staff felt “outgunned” by the opposition in Superior Court cases. Additionally, the amount of Superior Court administrative work, including responding to discovery requests, can be very time consuming.

2.3.3 Recommendations

17. The staffing and workloads of the litigation support unit should be reviewed to determine whether there is a need to separate the management of level one and level two appeals to allow the litigation unit to focus on superior court cases.

The litigation unit oversees the paper-flow for all three levels of appeals. Managing 1,200 outstanding superior court cases appears by itself to be a full-time job. A separate unit might be created to manage level one and level two appeals so that the litigation unit can focus on superior court cases. This unit could manage the intake and outflow of appeals and evidence, schedule hearings, and ensure that evidence is exchanged timely.

18. Once the Commercial Section is re-organized by property type, each team (office, retail, multifamily, etc.) should represent its own properties at level-one and level-two hearings.

By doing so, they will bring a level of expertise not attainable when all appraisers try to specialize on every property type. They will have significant supporting data prepared in advance of hearings that describe market trends for each property type, the data researched and the income models utilized.

19. RPAD personnel should respond to any presentation of evidence on the part of petitioners overly relying on leased-fee values at level-two hearings by providing RPTAC commissioners with relevant citations to the market-value standard in the D.C. Code. OTR also should bring the consequences of an over-reliance on leased-fee values based on a selective reading of the National Place decision to the attention of the District Council and to seek clarification of the standard of assessment.

In abandoning the practice of leased-fee valuation, RPAD needs to ensure that RPTAC commissioners understand the difference between fee-simple and leased-fee valuation, which the Code requires. The point is not that high vacancy rates should be ignored, but that normal fluctuations in lease rates, vacancies, and tenant turnover should be accounted for in the model rather than adjusted for individually. Normal tenant turnover and tenant improvement costs can be modeled and incorporated into mass valuation.

20. For level-one and level-two hearings, the District should create a standard commercial appeal template that incorporates the cost, market and income approaches.

Even where a specific approach might not be the most appropriate valuation method, it can be used to support the values estimated by the other two. This template would allow the different property-type teams to standardize their presentations. It also lends itself to easy preparation and

review. Additionally, the level-two appeals board would have a familiar and consistent product from RPAD with which to evaluate property assessments.

21. For Superior Court cases, the District should avoid relying solely on RPAD staff to defend assessments in Superior Court using their “expert reports.”

Instead, the District should consider hiring Certified General Real Estate appraisers or designated appraisers from a prominent appraisal organization to prepare USPAP-compliant appraisal reports. This could be accomplished by outsourcing the appraisal or hiring a licensed appraiser as an RPAD employee to prepare appraisal reports for litigation. Attempting to reduce the volume of cases solely by mediating and settling will only result in more cases being filed. Tax attorneys know the district is not spending the necessary money to hire experts and litigate cases, so they can file lawsuits in Superior Court with almost no risk of losing. Receiving a reduction via settlement is much more likely than a case actually going to trial.

3. EVALUATION OF ORGANIZATION

Section 3 addresses the requirements of CLIN 0002, namely, an “evaluation of organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, and staff development functions.” We touch on other aspects of management. We consider workload statistics, staffing levels, and related matters in Section 3.1, organization structure, performance measures, and related matters in Section 3.2, and compensation requirements, training, qualifications, and staff development functions in Section 3.3.

3.1 Workload Statistics and Resource Requirements

3.1.1 Current Situation

Workload statistics provide a basis for evaluating resource sufficiency and for estimating resource needs. Generally, an assessment agency needs sufficient staff, adequate computer support, and adequate facilities and equipment. The funding provided obviously affects available resources and reflects the political support for accurate and equitable assessments. Unfortunately, RPAD does not routinely monitor workloads or work accomplished.

3.1.2 Conclusions

Although they do not rise to the level of norms, comparative data from other large, urban assessment districts provide a starting point for evaluating resource needs and resource adequacy in the District of Columbia. Table 3-1 compares the assessment budget and staff to three commonly used benchmarks. At the outset, it should be noted that we were unable to obtain program-level budget or expenditure details below the level of RPTA. We were told that RPTA has little input into budget formulation, that its budget does not provide for a number of overhead items often included in assessment budgets, and that the RPTA budget includes costs associated with real property tax collection and with real property transfer tax administration, activities not commonly performed by assessors.

Table 3-1: RPTA and RPAD Compared to Funding and Staffing Benchmarks

Benchmark	RPTA (2010- 2011)	Number of observations	Low	Median	High
Budget as a percent of total property tax revenues (RPTA)	0.434	42	0.019	0.860	2.889
Budget per parcel (\$) (RPTA)	37.66	53	8.84	24.55	65.05
Parcels per staff (RPAD)	3,085	54	1,454	2,889	6,933

Sources: “1999 Major Assessment Jurisdiction Survey,” Cook County Assessor’s Office, with subsequent updates by author, and OCFO.

In principle, values of the first benchmark (assessment expenditures as a percentage of property tax revenues) should be minimized so that the funds available for other government services are maximized while at the same time providing sufficient funding for effective assessment administration. Determining an optimal level of funding obviously requires judgment. At typical levels of property taxation in the U.S., it is generally believed that between 1.0 and 1.5 percent of property tax revenue is needed for effective assessment administration. As can be seen, the District of Columbia is below that range, which could be attributed to inaccurate budget data, great economy of administration, or perhaps signal that salaries are low, since personnel costs constitute the largest portion of assessment budgets.

In addition to the previous caveats, interpretation of the second benchmark (budget per parcel) should take into account the fact that the data for eighteen of the fifty-three districts analyzed date from 1999, and costs of assessment administration per parcel have increased since the 1999 survey from \$21 per parcel to \$30 in 2011.³¹

Regarding the third benchmark (parcels per staff member), it should be noted that the number of staff is for RPAD only. A comparatively low number indicates (everything else being equal) a light workload, while a large number indicates a heavy workload. Early IAAO studies have suggested that 2,500 parcels per staff member is typical overall, while larger districts typically had about 3,500 parcels per staff member.³² Both the figure for the District (3,085 parcels per employee) and the median of 2,889 parcels per staff member in the fifty-four districts analyzed are in the expected range. Thus, these benchmarks provide no clear signals about the adequacy of funding or staffing.

In order to evaluate resource needs further, we compared parcels-per-appraiser ratios for RPAD with a smaller sample of districts for which the requisite data were available. The ratio for RPAD is about one appraiser per 5,000 properties. In contrast the median ratio for a sample of sixteen assessment districts was 1:6,600. IAAO has used 1:5,000 as a benchmark.

Finally, we attempted to examine RPAD's staffing needs in more detail. Table 3-2 provides a pro forma estimate of staffing needs (full-time equivalent positions or FTEs) of a combined commercial property assessment section. The assumed workload statistics (column 2) are based on estimates drawn from available statistics when they were available (RPAD does not routinely monitor workloads, and the data RPAD furnished sometimes were inconsistent). The productivity rates (column 3) are, with the exception of inputs from the Major Property Unit, notional and are based on rates achieved or believed to be achievable in other jurisdictions. The appeal defense workload (1200) is much less than the actual workload in the District, but is at the upper end to the typical range for large U.S. jurisdictions. The days of work estimates (column 4) simply are the workload estimate divided by the productivity rate. The indicated FTE need (column 5) is based on an assumed work year of 220 days. Given the lack of workload data and other limitations, some individual FTE estimates inevitably are incorrect. One hopes that there are some

³¹ The total number of observations is seventy-five, and the median year of the observations is 2007.

³² *Improving Real Property Assessment: A Reference Manual*. IAAO, 1978 and Langhoff, Gary. *Assessment Jurisdictions and Agency Resources in the United States*. IAAO, 1988.

compensating errors. Were they to be developed, better figures on workloads and achievable productivity rates could be used to refine the estimates.

Table 3-2: Pro Forma Workload Analysis for a Combined Commercial Assessment Section

Task/activity	Workload	Full-time equivalent Positions (FTEs)			
		Rate/day	Days	Estimated	Actual
Screen sales	1000	20.0	50	0.2	
Inspect sales	500	10.0	50	0.2	
I&E questionnaires	10000	15.0	667	3.0	
Modeling building/QA	10	0.5	20	0.1	
New work (permits)	2000	5.0	400	1.8	
Change reviews	24400	25.0	976	4.4	
Field data verification	4380	10.0	438	2.0	
Appeal defense	1200	0.5	2,400	10.9	
Total				22.7	22.0

The table suggests that RPAD has sufficient staff for normal commercial real property assessment operations based on *typical* workloads. RPAD's appeal workload, however, is far from typical, and to satisfy that workload timely would require a staff two or three times as large under current practices.

3.1.3 Recommendation

22. With the support of the OCFO and OTR, RPTA management should initiate a strategic planning exercise designed to shift resources from defending appealed assessments and to making the organizational and procedural changes recommended in Section 2 and in Section 3.2 below with the aim of producing more equitable and defensible values.

Elsewhere, such a strategy has been called "right, first time."

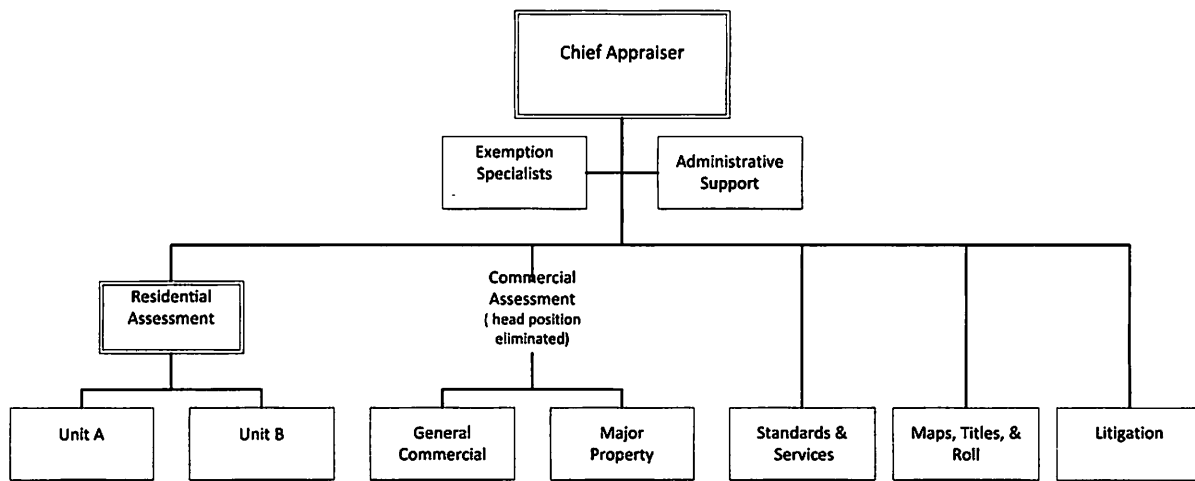
3.2 Organizational Structure

3.2.1 Overview

Responsibility for real property assessment has been delegated to the Chief Financial Officer. This responsibility has been further delegated to the Real Property Assessment Division (RPAD) of the Real Property Tax Administration (RPTA), which is under the Office of Tax and Revenue (OTR). Our evaluation is confined to the organization of RPAD and more specifically to how commercial assessment activities are organized. Figure 3-1 depicts the organization of RPAD, which is headed by the Chief Appraiser. RPAD has sixty-four authorized positions, of which five are vacant, including an administrative assistant reporting to the Chief Appraiser and four appraisal positions, of which three are in the Commercial Assessment Section. In addition, the position of head of commercial assessment is vacant, although this position may be eliminated.

It should be noted that the Standards and Services Unit, the Litigation Unit, and the Maps, Titles, and Roll Unit assist with the assessment of commercial real property. The Standards and Services Unit provides vital computer-assisted mass appraisal (CAMA) support, processes income and expense statements, and documents procedures, among other things. Also noteworthy is the fact that RPAD has access to geographic information system (GIS) support and to oblique aerial photography, which can allow appraisers to visualize properties without going on-site.

Figure 3-1: RPAD Organization



As discussed in the next two subsections, we have some concerns about the current organization of the Commercial Assessment Section.

Hearing second-level appeals is the responsibility of the Real Property Tax Appeals Commission (RPTAC), which is the successor to the Board of Real Property Assessments and Appeals (BRPAA). We also evaluated the interrelationships between RPAD and BRPAA/RPTAC.

3.2.2 The Division of Responsibilities between Major Properties and General Commercial Units

3.2.2.1 Current Situation

As noted, the Commercial Assessment Section is divided into two units, Major Property and General Commercial. There are seven members of the General Commercial Unit, including the unit's supervisor. The Major Property unit is staffed by seven members, including the unit supervisor. In addition to the seven current members, there are three open positions. The Commercial Assessment Section is also assisted by two members of the Litigation Unit, although, one of those appraisers has given notice that he is leaving RPAD.

The Major Property Unit is responsible for all commercial properties where the assessed value exceeds \$10 million. The General Commercial Unit is responsible for commercial properties where values are less than \$10 million. There are exceptions, however, as the General Commercial Unit is responsible for all multi-family housing properties with five units or more, regardless of value. Also, the Major Commercial Unit is responsible for all commercial property types in neighborhoods 10, 20, 44 and 46 (the main concentrations of major offices and hotels).³³

The value threshold of \$10 million that separates the Major Property Unit and General Commercial Unit seems to be somewhat arbitrary, as that amount recently increased from \$4 million.³⁴ Because the workload is divided by value between the two units, many properties shift back and forth. Because of shifting values, each unit must conduct a frequent review to determine which properties fall under its responsibility. The steps to conduct that review can be found in the department's Assessment Manual.³⁵

During interviews senior commercial assessment staff indicated that this split of responsibility has been in place for many years. No one could remember the workload being assigned any differently. Only the threshold amount has changed. The original purpose for the division of workload could not be determined, other than anecdotal evidence that higher valued properties are more complicated. In reviewing the organizational chart and discussions with senior staff, it appears that both teams have appraiser and senior appraiser positions.

3.2.2.2 Conclusions

Because values are constantly changing, many properties are handled by the Major Property Unit one year, only to be transferred to the General Commercial Unit the next, and vice versa. This shift in responsibility could lead to inconsistent treatment, as there is no standard on how specific property types should be assessed (Cost Approach, Market Approach or Income Approach). In addition, administrative tasks are required to ensure each unit has the correct property assignments. These time consuming tasks and shifting responsibilities create the potential for similar property types being treated differently because their values fall on either side of the \$10 million threshold.

3.2.2.3 Recommendation

23. The Major Property and General Commercial units should be combined to achieve greater efficiency.

This would eliminate the possibility of similar properties being assessed differently by different teams and also eliminate the constant shifting of responsibility as values change. It also alleviates the necessity to run reports to re-assign properties as values change. Having one unified commercial team would create a more efficient section.

³³ RPTA Customer Service Initiative, February 2012, Page 14.

³⁴ RPTA Assessment Manual Volume 1, Chapter 3, page 209.

³⁵ Ibid. 199-200.

3.2.3 Distribution of Commercial Assessment Workloads and Defense of Appeals

3.2.3.1 Current Situation

Within the commercial units, workloads are assigned to appraisers geographically. A set of neighborhoods is assigned to each appraiser, such that the Major Property Unit is responsible for about 6,500 properties while the General Commercial Unit manages about 18,000.

Turning to the defense of assessments, commercial properties in the District are aggressively appealed each year. Attorneys, experts and designated appraisers frequently petition commercial properties. These petitioners are often well prepared to argue complex issues related to specific property types. Because of the way the RPAD commercial property department is divided, each of the fourteen commercial appraisers must become quasi-experts in every property type in their assigned neighborhoods. Because the District is diverse, each of the appraisers' assigned areas is likely to contain most, if not all, of the broad commercial property types.

In interviews with senior staff, it was evident that the appeals process bogs down staff for a significant portion of the year. Assessment notices are sent out March 1, and taxpayers have 30 days to file their "first-level" appeal. First-level appeals are conducted from March through July. If a taxpayer isn't satisfied with the results of the first-level appeal, he or she has 45 days from the notification of results to file a "second-level" appeal with the Real Property Tax Appeals Commission (RPTAC). Those hearings start in October and run through February. If a taxpayer is not successful at the second-level, he or she can file a "third-level" appeal with the Superior Court of the District of Columbia. There are currently about 1,200 outstanding property tax lawsuits in the District. Commercial appraisers are involved in defending assessments in some fashion almost year round.

Table 3-3 illustrates the current work assignments for commercial appraisers (as represented by appraiser identification number, ARN). Generally, each appraiser is assigned a set of neighborhoods, or certain squares within a neighborhood. The exception is that all apartments, regardless of value, are managed by the General Commercial unit, excluding neighborhoods 10, 20, 44 and 46. Those neighborhoods are valued by the Major Property unit, regardless of value. The supervisors of the Major Property Unit and the General Commercial Unit are not assigned first-level neighborhood responsibilities apart from their overall supervisory duties.

Table 3-3: Current Commercial Assessment Section Work Assignments and Property Counts by Assessor Reference Number (ARN)

ARN	Responsibility	# Properties
336	All properties in Nhd 10 (Squares 13 thru 98, Square 105 thru 114E, Square 118 thru 127, Square 163)	375
348	Properties with a value in excess of \$10 million in Nhds 9, 39, 72,73. All Possessory Interest properties in Nhds 2, 5, 6, 7, 9 10, 19, 20, 25, 28, 36, 37, 39, 40, and 41. All properties in Nhd 46.	955
354	All properties in Nhd 44, All properties in Nhd 10 (Squares 223 thru 225, Squares 252 thru 254S, Squares 283 thru 291, Squares 316 thru 322 Squares 342 thru 348, Squares 371 thru 374)	599
368	Properties with a value in excess of \$10 million in Nhds 2,3,5,7,16,18,19,22,28,31,32,33,35,43,47,52,56,63,65,66,68,69,67 & all Possessory Interest properties in Nhd 46, 52, 60, 64 and 72	872
373	Properties with a value in excess of \$10 million in Nhds 4,8,23,25,26,30,38,41,50,54,70,71. All properties in Nhd 20	962
374	All Properties in Nhd 10 (Squares 375 thru 680)	1655
376	Properties with a value in excess of \$10 million in Nhds 1,6,11,12,13,14,15,17,21,24,29,34,36,37,40, 42,48,49,51,55,60,61. All properties in Nhd 20.	991
408	Properties with a value less than \$10 million in Nhds 12, 24, 31, 32, 34, 37, 51, 52, 55, 56, 60, 62, 63, 64, 65, 66, Nhd 40 (Squares 401 thru 625, Square RES). All apartments in assigned neighborhoods, regardless of value.	2640
416	Properties with a value less than \$10 million in Nhds 1,4,11,13,19,22,23,28,29,30,33,35,41,47,48,49,50,53,54. All apartments in assigned neighborhoods, regardless of value.	2767
441	Properties with a value less than \$10 million in Nhds 9,39 Nhd 40 (Squares 65 thru 181).	3321
457	All apartments in assigned neighborhoods, regardless of value. Properties with a value less than \$10 million in Nhds 5,15,18, Nhd 40 (Squares 182 thru 305)	3169
470	All apartments in assigned neighborhoods.	
477	Properties with a value less than \$10 million in Nhds 2,3,8,21,25,26,38,42,43,59,72 All apartments in assigned neighborhoods, regardless of value.	3032
	Properties with a value less than \$10 million in Nhds 6,7,14,16,16,36,68,69,73, Nhd 40 (Squares 306 thru 400)	3265
	All apartments in assigned neighborhoods, regardless of value.	24603

3.2.3.2 Conclusions

Because any given neighborhood contains a variety of property types, each commercial appraiser must be proficient in assessing a wide variety of property types, including office, retail, multi-family, hotel, senior care and industrial. Within each of these broad property types, there are sub categories that also require extensive knowledge. For example, within the senior-care property

type, there are nursing homes, assisted living facilities, hospitals, rehab facilities and continuing care retirement facilities. Any of these property types requires considerable valuation knowledge. Because the commercial department is divided geographically, each of the fourteen appraisers must be knowledgeable in all of the broad property types and each sub category within those types.

Almost every property type has multiple appraisers responsible for valuation. For example, Use Code “042 Store-Misc” is valued by fourteen different commercial appraisers because at least one of those property types is located in every assigned area. The same is true for Use Code “051 Commercial Office Small.” All fourteen commercial appraisers must be experts in office valuation, which is one of the most frequently appealed property types. In addition, they must become proficient in the valuation of all other property types within their assigned neighborhoods and need to become expert in the locational differences within those areas. That is a monumental task for even the most experienced appraiser.

The most valuable property type in the District is Use Code “052 Commercial Office Large.” This use code represents 771 properties in the District with a total value of approximately \$71 billion and an average value of \$92 million. Because of the way RPAD is currently organized, these properties are valued by every appraiser, regardless of experience. All fourteen commercial appraisers have responsibility for valuing large offices within their respective neighborhoods. There is no written documentation on how to value these valuable properties, so the current organizational structure could lead to inconsistencies.

Between defending assessments at the three appeal levels and managing their various neighborhood assignments, there is little time to develop and implement models for various property types. Even with ample time, every one of the fourteen commercial appraisers must analyze significant data to develop valuation models on many different property types. This results in duplication of efforts and potentially inconsistent results.

3.2.3.3 Recommendation

24. Assign the commercial staff by property type instead of geographically.

By assigning commercial staff to specific property types, they can gather data, analyze the data, and build models for their specific property assignments. This would alleviate the need for every appraiser to become an expert in every property type. By focusing on one or a limited number of property types, an appraiser can research the most useful data, develop models, and stay current on all issues affecting those property types.

Specialization would allow each appraiser to become skilled and efficient at their assigned property types. By focusing on one property type (or a limited number of property types), he or she would be able to produce a higher quality assessment. Instead of shouldering the burden of mastering the enormous amount of knowledge required for proficient valuation of all property types, specialization would allow individual appraisers to become true experts in their assigned proper-

ty types and better understand industry trends and influences on value that affect these properties.

The benefits of specialization were remarked as early as 1776 in Adam Smith's example of pin-making in *The Wealth of Nations*, although present-day examples abound as well. For example, car manufacturing employees work on an assembly line with each employee focusing on one component of the vehicle. They become experts at installing that single item. One worker installs the frame, another the engine, a third the wheels, etc. By specializing, they efficiently accomplish their individual tasks and together produce a better product than if each person attempted to create every part of the car by themselves. A similar analogy can be made in the construction of a home. Rarely do you see a single person build an entire house by oneself. Instead, plumbers, carpenters, electricians, painters and others combine their expertise to achieve maximum efficiency.

The RPAD has traditionally assigned work geographically. In our interviews, it was clear that work had been divided geographically as far back as anyone could remember. Although some suggested that dividing the work by neighborhood allowed the appraisers to diversify and become more "well rounded" it seemed more a function of habit than a conscious decision to improve efficiency.

The IAAO does not specifically recommend that assessors divide commercial departments by property type or neighborhood. However, it does see the benefit of specialization. The IAAO's *Property Appraisal and Assessment Administration* says "The development of an organizational structure starts with the concept that greatest efficiency is obtained by dividing work into specialized tasks."³⁶ For these reasons, assessment offices largely have abandoned the assignment of appraisers to districts on an individual basis in order to improve efficiency, performance, and internal control.³⁷

RPAD has seen the benefit of specialization. Most apartments are appraised by the General Commercial Unit, regardless of value. All cooperatives are managed by one appraiser. Possessory interest properties are valued by two appraisers, and one appraiser has managed the more valuable hotels.

RPAD has grouped similar properties into categories that could be the basis for a transition from primarily geographic work assignments to property type work assignments.³⁸ All District properties are grouped into ten categories. Commercial properties (including multifamily) represent seven of those groups: commercial office, commercial retail, residential multi-family, residential-transient, commercial specific purpose, vacant, industrial and special purpose. Table 3-4 il-

³⁶ Property Appraisal and Assessment Administration, Page 422.

³⁷ Elements of a district organizational structure may still exist in Philadelphia and New York City, two districts plagued with accusations of corruption. New Orleans recently abandoned a district structure for the same reason. See National [now International] Association of Assessing Officers, 1941, *Assessment Organization and Personnel*, pp. 136-139, for an assessment of the relative advantages of a primarily functional organization as opposed to a primarily geographical organization.

³⁸ RPTA Customer Service Initiative Handbook, pages 32 and 33.

illustrates those categories and the number of properties associated with each. It also illustrates possible appraisal teams. Some property-type categories could be combined to assign more appraisers to those requiring greater resources.

Property-type teams could be created combining appraisers from the Major Property Unit and the General Commercial Unit. That way, more experienced appraisers could manage the valuation and defense of the complex properties, while less experienced appraisers learn valuation techniques and defend those property types. Each team would be responsible for all aspects of property assessments, including permits, sales, modeling, supplemental assessments and defending value in appeals. The teams would be staffed to leverage the strengths and experience of each appraiser. In addition to the property type teams, a modeling team should also be created. The appraiser(s) on this team would oversee the commercial modeling process.

Table 3-4: Proposed Property-Type Teams with the Number of Appraisers on Each Team

Property Type	Count	Number of Appraisers
Commercial - Office	2,533	3
Commercial - Retail	3,461	3
Residential Multi-family & Transient	8,848	3
Commercial - Special Purpose	1,866	2
Commercial Valuation Modelers		2
Industrial & Special Purpose	2,789	2
Vacant Land	5,147	2
Total	24,395	17

From the office perspective, specialization is more efficient because a consistent approach would be applied to all properties (because one team is valuing similar properties, regardless of value or location). That's not to say that location would be ignored. On the contrary, by managing specific property types, each team would be better suited to note location differences among all assigned properties. Specialization can also be expected to facilitate the introduction of enhancements to the office's valuation modeling efforts, discussed elsewhere, which are more sensibly introduced on a schedule based on property types than on one based on neighborhoods. Finally, assigning two or more appraisers to each group ensures consistent results, even if one appraiser leaves RPAD. With the junior appraisers acting as apprentices to senior appraisers, an unexpected departure of one would allow the other to advance and continue the process.

From the taxpayers' perspective, having a qualified team valuing similar properties would ensure equity, because a consistent approach would be applied to all. Additionally, when taxpayers inquire about properties, they would be impressed to discover the expertise of a specific team.

From an appraiser's perspective, having a specific job assignment would be something he or she could manage more easily than being responsible for multiple neighborhoods containing dozens

of different property types. During appeal season, appraisers would be better equipped to defend assigned properties because they have focused on that property type, developed the models that value them, and understand the nuances of location and other factors that affect that specific property type. Additionally, individuals on each team could build on each other's knowledge, training and experience.

Although some mention was made during interviews of the benefit to appraisers of the broader experience that results from having a diverse portfolio, offsetting benefits to them would also result from their increased sophistication as a result of specialization, and the opportunity for rotation of personnel is also not necessarily precluded. In contrast to many jurisdictions, the geographic size of the District presents no particular rationale in favor of geographic assignments on the grounds of travel times. Further, if ratio studies are to be stratified by property type rather than geography, as we recommend in section 2.2 on other grounds, having the appraisal assignments on a congruent basis would be advantageous for performance measurement purposes.

From the perspective of the appeals board, District appraisers would present a consistent defense and be better equipped to meet the challenges presented by experienced attorneys and appraisers, sometimes specialists themselves.

By eliminating the division between the major property and general commercial units and assigning commercial properties based on property type instead of neighborhoods, RPAD would gain expertise and efficiency. This single change could result in a significant improvement to the quality of District assessments.

3.3 Appraiser Qualifications and Compensation Levels

3.3.1 Current Situation

There are four grades of appraiser positions in RPAD: Appraiser DS-9, Appraiser DS-12, Senior Appraiser DS-13, and Supervising Appraiser DS-14. Currently, there are eight DS-12s and four DS-13s in the Commercial Assessment Section (in the Major Property Unit there were two vacant DS-12s and one vacant DS-13). A person can be promoted from DS-9 to DS-12 on the supervisor's recommendation, providing a bit of a career path, and there are no incumbents in the DS-9 grade in RPAD. Promotion to senior appraiser can only occur when there is a vacancy.

We examined position descriptions for the DS-12, DS-13, and DS-14 positions. The examination reveals broad similarities in the description of duties and responsibilities of the DS-12 and DS-13 positions. The chief differences are that candidates for the latter position are expected to process income and expense statements and to train and review the work of persons in lower-grade positions.

Appraiser DS-12 and Senior Appraiser DS-13 positions require knowledge (or skills) in nine areas. All of the areas are appropriate, and the requirements are broadly similar. However, the depth of knowledge is greater for Senior Appraisers. That is, where "broad" knowledge is sufficient for a DS-12, "comprehensive" knowledge might be required of a Senior Appraiser candi-

date. Where “comprehensive knowledge” is required for an Appraiser, “complete” or “thorough” knowledge might be required of a Senior Appraiser. Strikingly, there are no formal education requirements and few appraisal training requirements. There are no credentialing requirements and no continuing education requirements.

RPTA management is aware of the importance of training in building and maintaining technical competence. However, funding for training had recently been eliminated from the budget for economy reasons. RPAD succeeded in obtaining funding this year to send appraisers to a school sponsored by the Virginia Association of Assessing Officers to take courses in the income approach.

We also examined announcements for open positions (DS-9 to DS-12 (Residential), DS-12 (Major Property), and DS-13 (Major Property)). The statements of duties and responsibilities in the announcements generally correspond to those in position descriptions. However, statements of requirements are more explicit. For example, to be considered for the residential position, candidates must meet the “minimum” requirement of “one year of specialized experience performing the related duties and responsibilities.” The Senior Appraiser position additionally requires successful completion of International Association of Assessing Officers (IAAO) courses 101, 102, 112 and 300 or equivalent, a requirement not found in the Senior Appraiser position description but similar to one found in the Supervising Appraiser position description.³⁹ In addition, there is a “specialized experience” requirement: “Experience that provides the applicant with the particular knowledge, skills, and abilities to perform successfully the duties of the position, and that is typically in or related to the work of the position to be filled. To be creditable, district government employees’ specialized experience must have been equivalent to at least the next lower grade level in the normal line of progression for the occupation in the organization.” How such requirements are administered is a subject of Section 4 (and sections 3.3 and 4 should be read together).

Turning to compensation levels, Table 35 displays the current pay ranges for the open positions. There are ten steps in each range. The first five are annual steps, while the remainder are biennial steps.

Table 3-5: Appraisal Salary Ranges in the District of Columbia

Grade	Minimum	Maximum
DS-9/1 – DS-12/10 (Residential)	45,345	86,482
DS-12/1 – DS-12/10	67,600	86,482
DS-13/1 – DS-13/10	77,884	100,357

³⁹ Course 101 is “Fundamentals of Real Property Appraisal; Course 102 is “Income Approach to Valuation”; Course 112 is “Income Approach to Valuation II; and Course 300 is “Fundamentals of Mass Appraisal.”

The Human Resources Division of the OCFO states that salaries are periodically benchmarked. RPTA management believes current salaries are insufficient to attract and retain qualified staff.

3.3.2 Conclusions

In compliance with professional standards and best practices, assessment districts have been strengthening technical proficiency requirements in recent decades. We believe that the District's lack of formal education and training requirements impedes its ability to ensure that its appraisal staff has the requisite skills and conceivably hampers its ability to attract highly qualified personnel.

The adequacy of salary levels could not be fully evaluated because of a lack of comparability in education and skill requirements with the requirements of roughly comparable assessment districts. Moreover, there are no publicly available recent salary surveys of comparable assessment districts; our evaluation is based on a scan of position announcements recently advertised on the IAAO website and in *Fair & Equitable*. Nonetheless, District salaries seem roughly comparable to other large jurisdictions. Additionally, we were told that OCFO participates in District-wide compensation studies. In the final analysis, current salaries probably appeal to candidates with lower qualifications but could be unappealing to highly qualified candidates. Incumbents seeking less stressful positions could find a suitable position at a roughly comparable salary.

3.3.3 Recommendations

We visualize a three-phase approach to ensuring that appraisers have the requisite qualifications and that salaries offered them are commensurate.

25. The formal education, experience, and specialized training requirements in current position descriptions should be brought into line with the general qualifications laid out in Appendix A of the *IAAO Standard on Professional Development*.
26. A two-part training needs analysis should be made. First, RPAD should identify any shortcomings in the training of the current appraisal staff. Second, RPAD should formalize a continuing education requirement (also addressed by the *Standard on Professional Development*). Appropriate funding for training should be provided.
27. A formal analysis of salary sufficiency should be made when qualifications have been upgraded. Consideration also should be given to offering a stipend for appraisers who possess an appropriate professional credential, such as the Certified Assessment Evaluator (CAE) conferred by IAAO or the Member, Appraisal Institute (MAI) conferred by the Appraisal Institute.

We note also that if our organizational recommendations are adopted, there may be scope to reinstate the Head of Commercial Assessment position and to create new upper-level (DS-14) appraisal positions for team leaders (it is common to find “principal” appraiser positions above senior appraisers).

4. EXAMINATION OF HIRING PRACTICES

As noted, we were asked to examine whether “hiring practices, including whether the Human Resources (HR) rules and regulations to which the Office of the Chief Financial Officer (OCFO) is subject, hinder or enhance the ability of the Office of Tax and Revenue (OTR) to attract, develop, and retain a well-qualified workforce.”

4.1 Current Situation

In HR matters, the OCFO enjoys some autonomy in hiring because of the exacting professional, technical, and ethical requirements associated with filling positions of a financial nature. That is, hiring is handled by the HR Division of the OCFO rather than by the DC Department of Human Resources. However, the HR Division of the OCFO adheres to the normal equal employment opportunity policies and to the job preferences for veterans and District residents. It is difficult to ascertain whether such policies have any undue effect on hiring or retention, given the recent turnover in management and lower positions in RPTA.⁴⁰

We also examined hiring practices. Open positions are advertised on the OCFO’s website; they may be advertised more broadly, such as with the IAAO.⁴¹ Position announcements contain descriptions of duties that parallel those in position descriptions. The announcements also state the qualifications required for the position. Applicants submit a standard employment application (form DC2000). Among other things, the application elicits information about formal education, training, and work experience, and applicants also are requested to submit a resume and supporting documentation. The application form (which can be submitted electronically) contains open-ended fields in which applicants can describe the nature of previous positions that they have held and in which they can describe their accomplishments. The application also contains a section for free-form responses to “ranking factors,” which apply to the open RPAD positions. The current RPAD ranking factors are:

1. Describe your experience in the use and application of the three (3) common approaches to value with emphasis on the income approach to value and specific experience in the valuation of commercial properties in an ad valorem tax environment.
2. Describe your experience in the preparation and presentation of documentation and testimony in the support of values through the appeals process including first (1st) level and Board of Review appeals.
3. Describe your strong verbal and written skills, interpersonal skills, and effective problem solving and analytical skills to maintain an effective, professional relationship with co-workers and customers.

⁴⁰ We were told that exit interviews were not routinely conducted.

⁴¹ At the time of this evaluation, there were four open positions in RPAD.

Announcements indicate whether the position has a fixed closing date or whether it is open until filled. The current RPAD openings fall into the open category (suggesting that it may not be easy to fill the positions).

In the case of open-until-filled positions, HR periodically screens applications. Applications are screened for completeness. Along with responses to the ranking factors, HR looks at education and experience factors. It identifies candidates that appear to be qualified. Because there are no qualifying examinations, apparently qualified candidates must be interviewed. Interviews are conducted by a three-person panel comprising an OTR hiring manager and subject matter experts. During an interview, a candidate is asked a standard set of questions, and the panel members rank the answers on a 1 to 5 (best) scale.

RPAD management feels that this process produces too many under-qualified candidates; that is, candidates with some conventional single-property appraisal backgrounds but with insufficient mass appraisal skills and experience. When an acceptable candidate is found, hiring is delayed because of the need to obtain a waiver from hiring restrictions.

4.2 Conclusions

The interview panel approach is an accepted screening procedure. However, the current application and interview procedures could give persons with good writing skills or good oral communication skills an undue edge over some candidates with better technical qualifications (recognizing that the ability to communicate well orally and in writing is important). What is needed is a balanced approach that evaluates technical skills well. In addition, we believe the lack of explicit mass appraisal training and experience requirements in position descriptions (as discussed in Section 3.3) contributes to under-qualified candidates being presented to RPAD.

4.3 Recommendation

28. In addition to the recommendations made in Section 3.3.3, OTR should consider some form of competency testing.

Mass appraisal case problems have been successfully used by other jurisdictions to evaluate qualifications.

5. SUMMARY OF RECOMMENDATIONS

The following enumeration is provided for convenience. The indicated sections of the report (shown in parentheses) provide more detail on each recommendation and our rationale for making it.

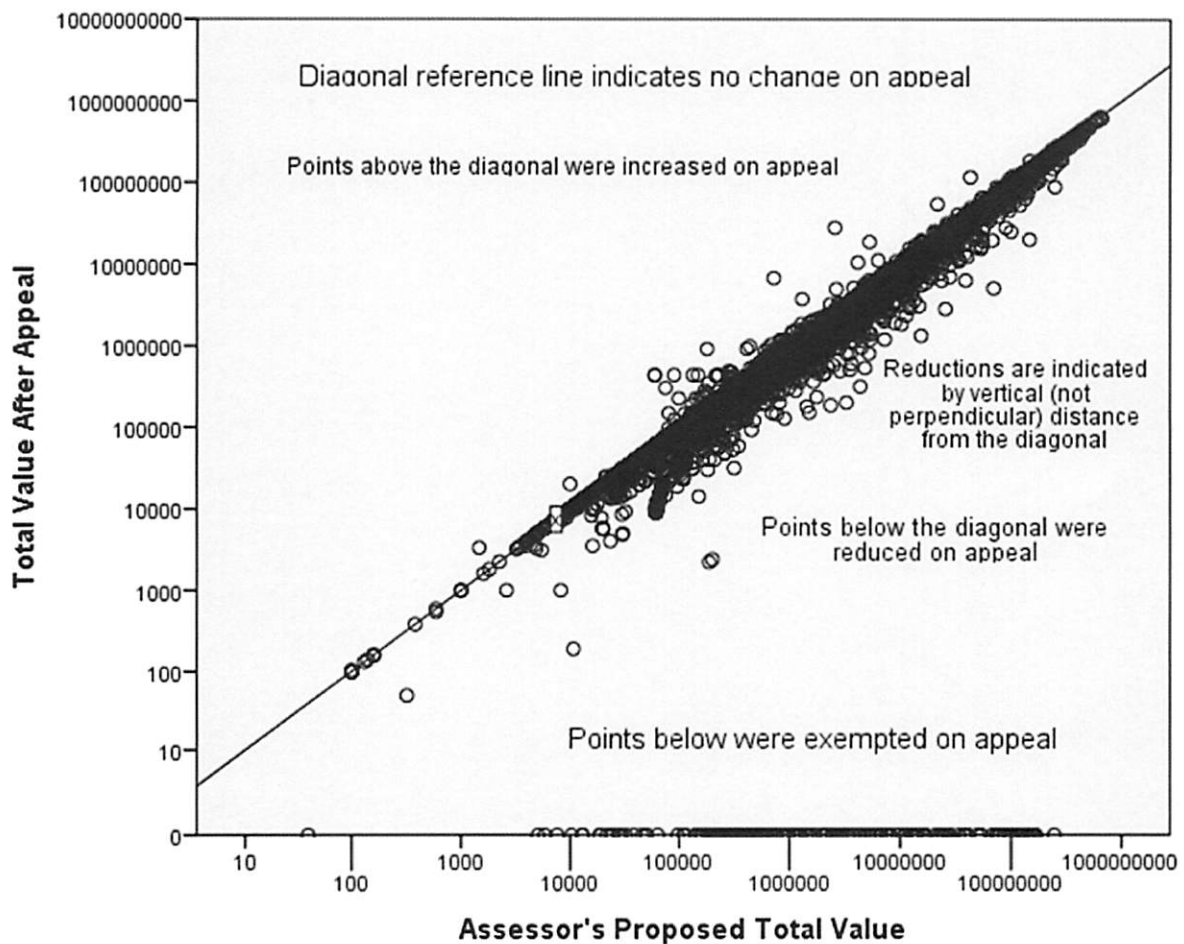
1. The District should transition from valuing commercial properties one at a time with offline spreadsheets, to building income models and integrating them into the Vision CAMA system. (2.1.1.3)
2. Models for each property type should be created. Property types should be stratified into classes so that individual models can be created and applied to like properties. (2.1.1.3)
3. Instead of each appraiser researching his or her own market rent, vacancy, and expenses and assigning those to individual properties, the district should coordinate this effort in an organized way. (2.1.1.3)
4. The income models should include estimates of market rent, market vacancy, market expenses and capitalization rates. (2.1.1.3)
5. RPAD should create an in-house capitalization rate study. (2.1.1.3)
6. Once models are created, they would be input into the Vision CAMA system so that commercial properties could be valued systematically en masse. (2.1.1.3)
7. Responsibility for commercial land valuation should be consolidated to one or two appraisers so that more consistent results would be achieved. (2.1.1.3)
8. OTR should explore ways to better align assessment notice and I&E questionnaire deadlines. (2.1.1.3)
9. The income and expense questionnaires should be simplified. (2.1.2.3)
10. Once the surveys are re-designed, appraisers should review them prior to sending them to the outside vendor for data entry. (2.1.2.3)
11. After they are reviewed, returned income and expense surveys should be uploaded to the CAMA system. (2.1.2.3)

12. Management should review all facets of its performance evaluation system with a view to ensuring all valid sales participate in the ratio study, including multi-parcel sales. (2.2.1.3)
13. Staff from the Standards and Services Unit, or someone equally vested in objective measurement rather than looking good, should review sales validation efforts to ensure their integrity and to investigate and resolve outliers and extremes. (2.2.1.3)
14. Procedures used in the District's ratio studies should be brought into conformance with IAAO standards, especially with respect to trimming, but also with respect to stratification, documentation, and other matters. (2.2.1.3)
15. Management should continue to monitor the quality of its valuation performance as it already does via its appeals tracking system, recognizing that a superior measure of performance is found in assessment to sales price ratio studies, the subject of Section 2.2.1. (2.2.2.3)
16. Some form of quality assurance, whether double key entry, embedded consistency edits, or some other alternative, should be considered for the appeals monitoring system used by RPTAC. (2.2.2.3)
17. The staffing and workloads of the litigation support unit should be reviewed to determine whether there is a need to separate the management of level one and level two appeals to allow the litigation unit to focus on superior court cases. (2.3.3)
18. Once the Commercial Section is re-organized by property type, each team (office, retail, multifamily, etc.) should represent its own properties at level-one and level-two hearings. (2.3.3)
19. RPAD personnel should respond to any presentation of evidence on the part of petitioners overly relying on leased-fee values at level-two hearings by providing RPTAC commissioners with relevant citations to the market-value standard in the D.C. Code. OTR also should bring the consequences of an over-reliance on leased-fee values based on a selective reading of the National Place decision to the attention of the District Council and to seek clarification of the standard of assessment. (2.3.3)
20. For level-one and level-two hearings, the District should create a standard commercial appeal template that incorporates the cost, market and income approaches. (2.3.3)
21. For Superior Court cases, the District should avoid relying solely on RPAD staff to defend assessments in Superior Court using their "expert reports." (2.3.3)

22. With the support of the OCFO and OTR, RPTA management should initiate a strategic planning exercise designed to shift resources from defending appealed assessments and to making the organizational and procedural changes recommended in Section 2 and in Section 3.2 below with the aim of producing more equitable and defensible values. (3.1.3)
23. The Major Property and General Commercial units should be combined to achieve greater efficiency. (3.2.2.3)
24. Assign the commercial staff by property type instead of geographically. (3.2.3.3)
25. The formal education, experience, and specialized training requirements in current position descriptions should be brought into line with the general qualifications laid out in Appendix A of the *IAAO Standard on Professional Development*. (3.3.3)
26. A two-part training needs analysis should be made. First, RPAD should identify any shortcomings in the training of the current appraisal staff. Second, RPAD should formalize a continuing education requirement (also addressed by the *Standard on Professional Development*). Appropriate funding for training should be provided. (3.3.3)
27. A formal analysis of salary sufficiency should be made when qualifications have been upgraded. Consideration also should be given to offering a stipend for appraisers who possess an appropriate professional credential, such as the Certified Assessment Evaluator (CAE) conferred by IAAO or the Member, Appraisal Institute (MAI) conferred by the Appraisal Institute. (3.3.3)
28. In addition to the recommendations made in Section 3.3.3, OTR should consider some form of competency testing. (4.3)

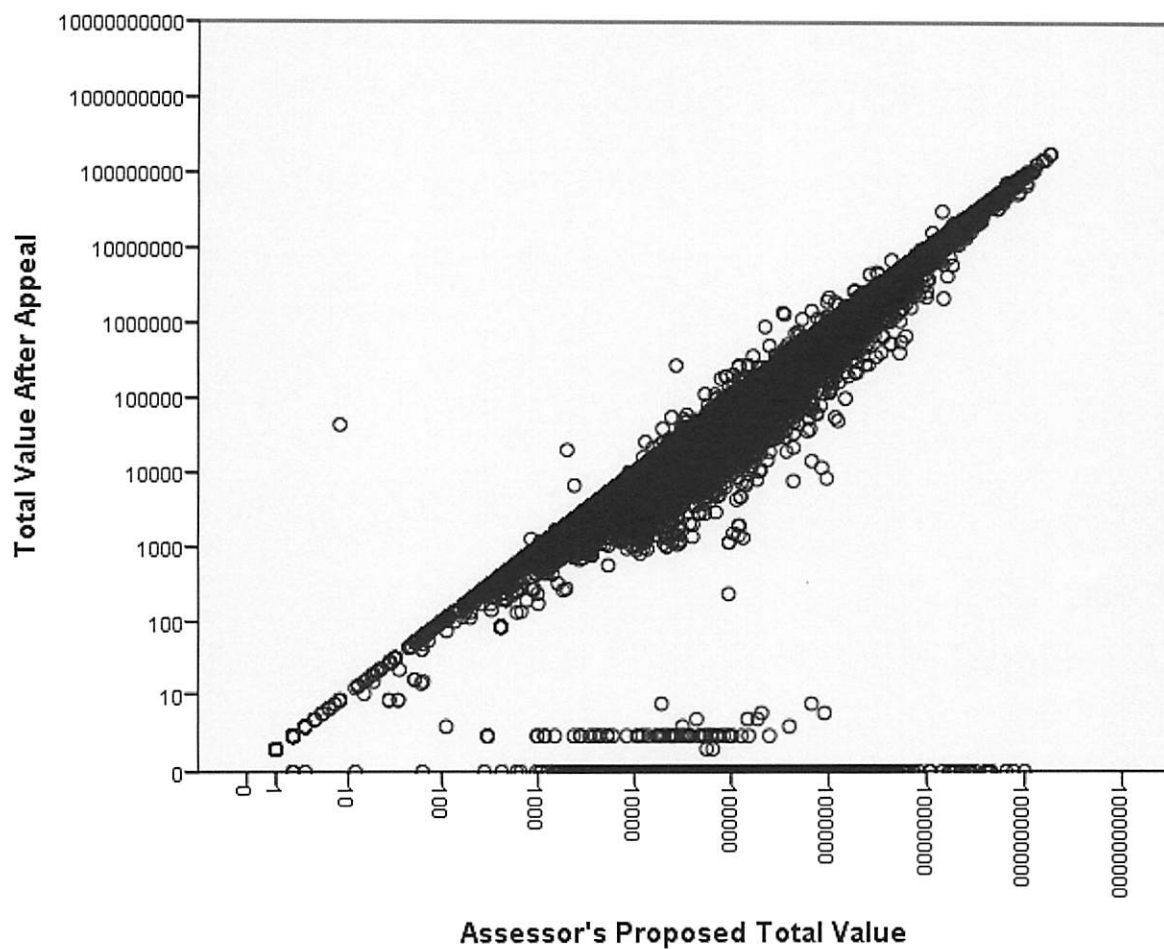
APPENDIX 1

Results of Commercial Appeals to BRPAA, 2002-2012 Plotted on a Logarithmic Scale



Note: The following graphs can be interpreted analogously.

Results of Commercial Appeals to Cook County Board of Review,
2006-2011,
Plotted on a Logarithmic Scale



Results of Commercial Appeals to BRPAA For Recent Years, Plotted on a Logarithmic Scale

